

**CA Worker Cooperative Bill Provisions: WORKING DRAFT**

1. **Global Provisions:** This Act can be added to either the Corporations section of the Code or the LLC Section, as a new special purpose LLC.
2. **All references to “company” or “operating agreement” can be replaced with “corporation” or “bylaws”, respectively, if the group decides to create a corporate entity.**
3. **Cooperative Purpose:** A company may be formed under this part for any lawful purpose provided that it shall be organized and shall conduct its business primarily for the mutual benefit of its members as patrons of the company. The earnings, savings, or benefits of the company shall be used for the general welfare of the members or shall be proportionately and equitably distributed to some or all of its members or its patrons, based upon their patronage of the company, in the form of cash, property, evidences of indebtedness, capital credits, memberships, or services.
  - a. Such companies are democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons.
4. **Definition:** A worker cooperative (hereinafter “cooperative” or “company”) is a business majority-controlled by its worker-members.
5. **Definition of member:** A member has the same meaning as “member” in Section 17701.02(p) of the California Corporations Code. A member may also be a patron of the cooperative.
6. **Definition of worker:** A worker is a natural person who provides labor to the cooperative with the expectation of receiving compensation.
7. **Definition of worker-member:** A worker-member is a worker and a member of a cooperative whose patronage consists of, but not limited to, providing labor to the cooperative.
8. **Definition of patron:** A patron is a member who provides labor to, purchases goods from, or uses the services of the cooperative. A patron may also be a person who uses the cooperative to market, process or handle their products or services. The cooperative’s primary class of patrons shall be the worker-members.
9. **Equal voting rights:** Each member shall have an equal vote.
10. **Unequal proprietary rights:** If the proprietary interests of the members are unequal, the cooperative must state this in its articles.
11. **Minimum number of worker-members required:** A cooperative shall consist of at least 3 worker-members, but it is permitted to have fewer than 3 worker-members for a maximum of 12 months during any 36 month period.
12. **Percentage of workers required to be worker-members:** In a typical year:
  - a. at least a simple majority (50% + 1) of all the workers in a cooperative company shall be worker-members; and
  - b. the majority of labor or hours shall be contributed by the worker-members
13. **Worker membership required:** The cooperative’s members shall include a class of worker-members. Only current workers in a cooperative are eligible for membership in the worker-member class.
14. **Additional member classes permitted:** The cooperative may elect to include additional classes of members, including non-patron members, provided that at no point shall non-worker-member classes, collectively, have greater voting power than the worker-member class when

- voting as a combined membership is called for. Additional classes may be provided veto power over matters that affect their particular membership, proprietary or voting interest.
15. **Qualifications for membership:** Qualification requirements and the process for accepting and terminating all members shall be reflected in the cooperative's organizing articles or operating agreement. Upon resignation, termination, or death, the individual's membership in the cooperative shall immediately cease.
  16. **Ultimate decision-making authority:** The activities and affairs of the cooperative shall be conducted and all corporate powers shall be exercised by or under the ultimate direction of the worker-member class.
  17. **Representative governance:** If the cooperative includes a board or other elected decision-making body, at least the majority of such body shall be elected by, and subject to removal by, the worker-member class.
  18. **Membership Meetings:** A cooperative shall hold an annual membership meeting. The cooperative may hold any other meetings on a frequency decided by the worker-member class and reflected in the articles or operating agreement.
  19. **Quorum:** A minimum of 20% of the members of the cooperative shall constitute a quorum for the purpose of conducting business at a meeting of the members.
    - a. Where a cooperative is authorized to conduct a meeting with a quorum of less than 51% of the membership, matters that may be voted upon at such meeting shall be listed in the notice of the meeting.
    - b. If there is a quorum present at the beginning of a meeting and then some members leave so that less than a quorum remains, the remaining members may continue to conduct business, as long as any actions they take (other than adjournment) reflect at least a simple majority of the members required to constitute a quorum.
    - c. In the absence of quorum, a majority of present members can vote to adjourn the meeting, and no other business may be transacted, except as provided above.
  20. **Decision making:** Decisions shall be made by at least a simple majority of the quorum required for a meeting.
  21. **Notice:** All meetings of the worker-member class shall have a minimum of 48 hours notice. All meetings which include other classes shall have a minimum of 10 days notice.
  22. **Inspection rights:** All worker-members shall have access to all financial and governance information of the worker cooperative, related to their needs as members, including articles, operating agreement, policies, bookkeeping and the membership list. The details of these inspection rights may be reflected in the cooperative's articles or operating agreement.
  23. **Availability of worker-membership:** Worker-membership shall be available to all workers in a worker cooperative, excluding temporary workers.
  24. **Membership candidacy period:** The cooperative may have a candidacy period for all workers on the track to worker-membership, which shall not exceed three years.
  25. **Base compensation ratio:** At no time shall the highest-compensated worker-member or employee receive more than seven times the compensation of the lowest-paid worker-member or employee. For purposes of this section, compensation shall not include patronage distributions.

26. **Resignation, termination, or death of worker-members:** A decision to terminate a worker-member requires a minimum of 51% vote of the quorum of the worker-member class or a delegated decision-making body, as provided in the cooperative's bylaws/operating agreement. If the decision to terminate a worker-member was made by a group comprising less than the entire worker-member class, the terminated worker member has the right to appeal the decision to the entire worker-member class, or a delegated decision-making body. Upon termination, resignation or death, a worker-member's account shall be returned to the worker-member in the manner prescribed by the articles or operating agreement. If no manner is prescribed, the account shall be converted to debt and repaid over a maximum of five years with interest accruing at the discount rate – as set by the Federal Reserve Bank of San Francisco.
27. **Dividend Distributions:** Dividend distributions on individual member accounts, not including patronage distributions, shall not exceed 15% in any fiscal year. A “dividend” is a return on member capital.
28. **Patronage distributions:** “Patronage distribution” means any transfer of the company's earnings made to a member of the company, the amount of which is computed with reference to the member's patronage of the company.
29. **Patronage:** “Patronage” of a member is primarily measured by the volume or value, or both, of the member's contribution of labor to the cooperative. Contribution of labor may include hours worked, wages earned, jobs created, or other measures of value. Patronage shall be distributed solely to worker-members unless the worker-members elect to distribute patronage according to other members on the basis of their patronage of the cooperative.
30. **Patronage does not include compensation for labor:** Worker-member patronage distributions are additional to their compensation as workers.
31. **Member and capital accounts:** A cooperative shall have individual member accounts; and may create a cooperative account.
  - a. Individual member accounts may include any of the following, as provided in the operating agreement: the member's initial capital contribution, the member's share of undistributed patronage, founder's credit, or any other credit reflected in the cooperative's books consistent with federal tax law.
  - b. A cooperative may designate a portion of its cooperative account as an “indivisible reserves” account. A cooperative may only distribute or allocate non-member-sourced income to the indivisible reserve account. Indivisible reserve accounts are prohibited from being distributed to members and are dedicated to the cooperative's use. Upon dissolution, the indivisible reserve account shall be allocated to an International Cooperative Alliance-approved national federation or its designated regional body in California.
32. **Amendment of Governing Documents:** Only worker-members can amend the articles or operating agreement of the cooperative. Amendment may only take place at a properly-noticed meeting at which a quorum of worker-members is present. Amendments require a majority vote of the quorum present at such meeting.
33. **Dissolution/merger/revocation/demutualization/sale of major assets:** Only the worker-member class can vote to dissolve, merge, revoke or demutualize the cooperative; or sell, lease,

convey, exchange, transfer or otherwise dispose of all or substantially all of its assets. The worker-member class may permit other classes veto rights on such decisions, and such veto rights which may be provided in the cooperative's articles or operating agreement.

34. **Securities exemptions:** Worker-member capital contributions to the cooperative do not constitute securities under California law.
  - a. Investments by non-worker-members qualify for the exemption found in 25100(r) of the Corporations Code (which provision shall be amended to reflect this change).
35. **Use of the name “cooperative”:** Companies formed under this Part may use the name “cooperative”, and Corporations Code Section 12311(b) shall be amended to reflect this change.
36. **Secretary of State:** The Secretary of State shall provide information and sample documents for forming worker cooperatives on its website.