

**Western Areas Cities and Counties Cooperative Case Study**

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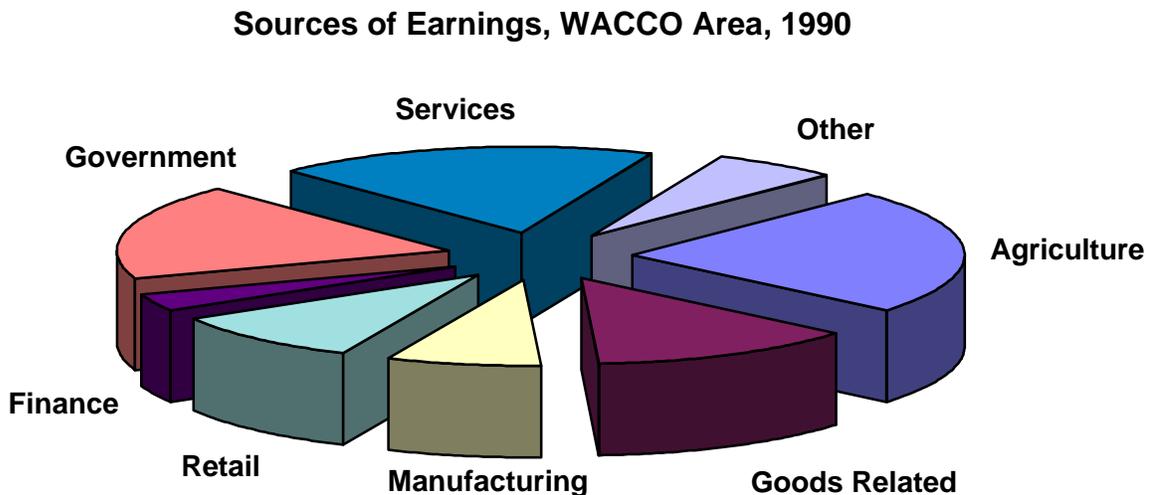
## **Introduction**

Local governments, particularly those in rural areas, are facing a number of challenges. In many rural areas population levels are stagnant or shrinking and the average age of residents is increasing rapidly. Agriculture, long the economic bulwark for many rural areas, is undergoing a structural transformation toward fewer, larger, and much more technologically sophisticated units. For rural areas this consolidation means that there are fewer potential local leaders, fewer children for the schools and consumers that often bypass local vendors to have their needs met more economically. Resistance to increases in taxes, particularly the property taxes upon which many local governments depend, has created significant fiscal constraints. It is within this context that the Western Areas Cities and Counties Cooperative (WACCO) has developed. WACCO is a cooperative organization that serves the governments of 9 counties and 19 towns in western Minnesota and is a model that could have widespread application throughout the United States, especially in rural areas.

To learn more about this innovative cooperative, a team of university researchers from Wisconsin, Minnesota, and North Dakota visited Fergus Falls, where WACCO is headquartered, on December 12, 1997. Three focus groups and three individual interviews were conducted on that and subsequent days. This report will summarize the findings of this case study.

## The Community

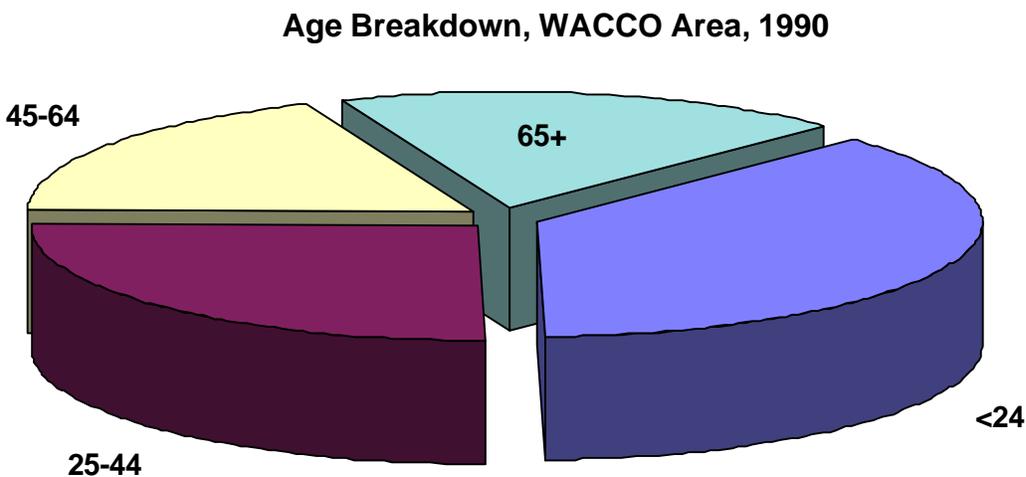
The following graph illustrates the major sources of earnings for the area. As the chart shows, the west-central portion of Minnesota served by WACCO is heavily agricultural (which accounts for 24 percent of total earnings). Agriculture in the area is well diversified with roughly half of total farm receipts coming from livestock (46 percent) and half from crops (54 percent). The area also has a significant tourism industry, particularly in the northern portion of its service area, which accounts, in part, for the importance of the service industry in the area. Government employment is the third most important source of employment in the WACCO service area.



Unemployment levels are relatively low in the area (5.4 percent in 1990) but poverty levels are relatively high (15.2% of the population fell below the poverty level in 1990). These figures suggest an abundance of low-wage employment and

significant numbers of the working poor. On a more positive note, per capita income in the counties served by WACCO grew robustly at between 4.0 and 5.5 percent over the 1985-1995 period. Income growth was more rapid in counties with regional trading centers (Alexandria, Fergus Falls, Morehead, Detroit Lakes) than in the more rural counties.

The total population in the 9 counties served by WACCO has changed little since 1980. Counties with regional trading centers have generally seen their populations remain the same or grow slightly, while the more rural counties have witnessed significant declines in their population base. The population age breakdown illustrated in the following chart indicates a relatively large proportion of the population (18%) in the 65 and over category. The people in this part of Minnesota are overwhelmingly of European descent (98 percent white) with Native Americans comprising the largest minority group (1.4%).



## The Cooperative Enterprise

WACCO has several functions. One of the initial goals of this cooperative was to purchase needed supplies and services (e.g. snow plow blades, road salt, office equipment and supplies) at reduced prices. By aggregating the orders of many governmental entities and acting as a broker with competing suppliers, WACCO has been able to generate significant savings for its members from this activity.

A second role that WACCO originally identified for itself was to facilitate the sharing of equipment between governments. To this end, WACCO created an inventory of equipment available in each of its members. The individual members negotiate rental terms between themselves. In addition, the cooperative has leased specialized equipment, such as a stump grinder, that is moved from community to community as need arises.

A third function that WACCO has taken on is that of a clearinghouse for information. It does this in two ways. First, if one local government has a question about a rule or regulation, WACCO will call the relevant agency, find out the answer and share the response with other members of the cooperative through its newsletter. Second, the cooperative provides a valuable forum for networking between the members. This allows local governments to tap into the expertise that exists within their cooperative and to improve coordination between equivalent units of local government in different localities (police, public works, etc.). For example, if one local government has a person on its staff with particular expertise

in a given computer program, investigative technique, or operation of a piece of equipment, others in the area can draw on that expertise when needed. While the benefits from this function are difficult to quantify, members of the cooperative identify this as one of the key benefits from participating in WACCO.

Finally, after WACCO was created, it developed a critical role in the area of training. This function was not initially identified as something the cooperative would do but has, over time, become one of its primary activities. More information about WACCO's efforts in the area of training and development will be discussed shortly.

## Development of WACCO

The idea of having local units of government collaborate with each other to cut costs and improve services arose from positive experiences associated with the sharing of a building inspector and some equipment between a few cities in the region. In the early 1990s the city managers involved in these early collaborative efforts had the foresight to see that these small-scale collaborative efforts could be greatly expanded. They decided to bring their mayors into the discussion and were encouraged to explore the level of interest in a more formal cooperative venture with other city managers and mayors in the area. Meetings were held throughout the region over the following year or two and sufficient interest was expressed that a decision was made to write a grant to help fund the experiment.

The group turned to the Lake Country Service Cooperative (LCSC) for help with the grant application.<sup>1</sup> A grant was written and submitted to West Central Initiative, which is an area foundation. The West Central Initiative approved the grant and provided funding over a three year, start-up period. The LCSC became the fiscal agent for WACCO, provided the cooperative with office space and gave it access to support services. The grant covered 100 percent of the cost of operations in the first year, two-thirds of the costs in the second year and one-third in the third year. When the grant was received, the cities involved agreed to locate the WACCO office in Fergus Falls. The criteria used in this selection were centrality of location and the availability of space and support from LCSC, which is also located in Fergus Falls.

The organization and structure of the cooperative has evolved over time. The operations of WACCO are governed by a joint powers agreement, which was drafted in 1993. This joint powers agreement was initially signed by the 11 cities that were involved in starting the cooperative. Within a year seven more municipalities had joined WACCO and several of the counties in the area sought membership. To include the counties the joint powers agreement was amended and additional funds were sought and granted by West Central Initiative. The area served by WACCO are shown in the following figure.

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1. At the time Lake Country Service Cooperative was known as the Educational Cooperative Service Unit (ECSU). ECSUs exist throughout Minnesota and are a cooperative that serves school districts in an area with purchasing and in-service training.

WACCO is governed by a board of directors, which meets quarterly and is composed of elected officials from each of the local government members, and an executive committee. The executive committee meets monthly, is composed of city managers and department heads, and has responsibility for overseeing the operations of WACCO. Beyond the initial grant funding, WACCO generates the funds needed to sustain itself from annual membership fees. The membership fee is based on the population of the county or city plus a fixed fee.

In September 1993, WACCO hired their first and only manager. This was a critical event for the cooperative. The executive committee, who was heavily involved in the hiring decision, were looking for someone who would be a self-starter and they found one. While the manager did not have experience with cooperatives or with local government, she brought extensive experience in customer service, a degree in marketing and management, and a willingness to listen and learn. One of the key reasons for the cooperative's success was the way it began operations. The cooperative, through the manager, organized a series of events that involved department heads and line workers in different departments from the various cities involved in WACCO. Thus, for example, the cooperative might invite all the public works employees in the region to a steak-fry at the public works offices of one of the members. The people involved in these departments met their colleagues from other towns, often for the first time, and shared information, ideas and concerns. The cooperative, by creating this forum for exchange and quickly acting on the ideas they generated, established themselves as a place to which members could go with needs or ideas for collaborative activities. The line

staff and department heads quickly took ownership of the cooperative and did not see it as a threat to their well-being.

WACCO, because it did listen to the line staff, identified training as an additional, previously unforeseen, function it could perform. It has been so successful in this area that during 1997, the cooperative organized 147 workshops, seminars, and training sessions that are estimated to have saved their local governments \$500,000.<sup>2</sup> In the member's focus group, one of the participants noted that WACCO has been a success because of the broad participation of different departments, the positive attitude of the board and management, and because of the manager's ability to work with a wide variety of people on a wide variety of topics.

## Impacts of WACCO

One of the goals of this case study was to identify some of the impacts that WACCO has had on members, non-members and the communities served by WACCO.

Impact on WACCO Members: One of WACCO's impacts noted by all three focus groups (members, non-members, and the board of directors) was an increase

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2. The estimated savings are based on what the local governments would have paid for equivalent training elsewhere. Since, for the most part, equivalent training would be available only in the Minneapolis-St. Paul metro area, by utilizing WACCO training programs, participants are saving mileage, meals, and lodging. Total savings are, therefore, calculated by multiplying the number of participants in a given program by the expected travel and per diem costs.

in the availability of training. Associated with this is the sense that members have more input into the training programs offered through WACCO than they would if they went elsewhere for their educational needs. Many members also identified cost savings for local governments as a key impact of WACCO. Cost savings have come not only from the training programs offered but also because of the enhanced buying power WACCO has created. Many of the participants suggested the value of the informal networking and the improved communications that now exist between the members of the cooperative, should not be underestimated. An example of the value of this networking was illustrated during the spring of 1997 when one of the members of WACCO, Breckenridge, Minnesota experienced a devastating flood. WACCO was instrumental in mobilizing public works departments from throughout its service area to supply trucks, personnel and other needed resources that helped the town cope with the situation. It is unlikely that the response would have been so well-coordinated nor so rapid if WACCO did not exist and if the members of the public works department were not on a first-name basis with their colleagues in Breckenridge. Finally, WACCO is being recognized at the state and regional level as a valuable model for others, which has given the membership a great sense of pride and accomplishment.

Relatively few negative impacts of WACCO were identified. There was some concern that the fees charged for being a member were a burden on the smaller municipalities, especially those that don't often use WACCO. Further, it was noted that there is a constant need for education about the benefits of WACCO because membership on the city councils and county boards change. The costs of being a

member of WACCO are explicit, while the benefits are sometimes more intangible (expenses foregone, networking, etc.). Dealing with peak demand for specialized pieces of equipment was another concern voiced by members. Specifically, they noted that a particular piece of equipment owned by one WACCO member is sometimes out on loan to another member when it is needed by the owner. This has, apparently, caused some frictions within the membership. Finally, it was noted that sometimes working through WACCO may be slower than working individually. For example, if an item is ordered through the cooperative, the cooperative asks if other communities are interested in purchasing this item, seeks bids, evaluates alternative suppliers and makes the purchase. This requires somewhat more advanced planning on the part of members but usually results in significant cost savings.

Impact on Non-Members. Even non-members identified a number of benefits they receive from WACCO's existence. In particular, they noted that non-members regularly participate in the training programs offered by the cooperative (at a slightly higher price) without incurring the annual membership fee. Further, non-members indicated that WACCO has been willing to help non-members find out about other training resources.

Negative impacts on non-members that were noted included their lack of access to the cooperative's resources, having to pay more for services received through WACCO, and reduced networking possibilities.

Impact on the Community. For the most part, WACCO is invisible to the person on the street. At one level this is a problem in that it is more difficult to

maintain support for the cooperative. On the other hand, this can be seen as a very positive impact in that WACCO is helping local governments reducing their costs, improving their services, and maintaining their local autonomy.

The only negative impacts associated with WACCO that were alluded to by several of the groups were a certain amount of friction between member and non-member governments (a “we” versus “them” mindset) and the breakdown in relations between WACCO and Lake Country Service Cooperative (which has started to offer some competing training programs). The separation of LCSC and WACCO occurred in 1996 and was driven by institutional changes; LCSC was given authority to offer services similar to those offered by WACCO, creating a conflict of interest. Some members of the cooperative viewed the competition that has resulted as healthy (creating more choices for members and providing market discipline) while others feel that an opportunity for collaboration was missed and additional overhead created.

## Priorities for Research

Each of the focus groups and the individual’s interviewed were asked to identify the types of research that they view as important for the cooperative. They were also asked to indicate whether this was a past, current, future or on-going priority. Table 1 summarizes their research priority opinions. All items were evaluated on a five point scale with 5 being very important and 1 being very unimportant. All of the research items identified were classified as important. As

indicated in the table, research that identifies the factors that are associated with successful cooperatives was the highest priority for these participants. Research that assesses the returns to cooperation, when a cooperative is the appropriate institutional structure to use, and more research on how cooperatives are created were also highly rated. In terms of the timing of this research, the participants indicated that identifying success factors, assessing cooperative returns, determining when to use a cooperative, and identifying important community issues as being of on-going importance. Case studies of cooperatives and how to create a cooperative were seen primarily as past issues for WACCO.

**Table 1: Research Priorities**

	Average	N
Success Factors for Co-ops	4.5	14
Assess Co-op Returns	4.4	14
When to Use a Co-op	4.4	13
How to Create a Co-op	4.3	14
Case Studies of Co-ops	4.0	14
Important Community Issues	3.9	15

### Priorities for Educational Programming

The educational priorities of the WACCO case study participants are somewhat more difficult to summarize because some people felt quite strongly about some issues (conflict resolution and the role of public finance in developing a cooperative) that were not necessarily broadly felt priorities. Educational programming in the area of leadership development was identified by most participants as being a key priority. The other items identified, training for the board of directors, education about the basic structure and philosophy of

cooperatives, community economics and risk assessment and management were seen as important but substantially less important than leadership development. It may well be that educational programming in leadership development was expected by the participants to contain several of the other educational priorities. With respect to when these educational opportunities are needed by WACCO participants, most felt they have an on-going need for this type of information. The exceptions were with respect to conflict resolution, which they indicated was a current need, and leadership development which was seen as both a future and an on-going need.

**Table 2: Educational Priorities**

	Average	N
Public Finance	4.8	5
Conflict Resolution	4.5	2
Leadership	4.4	14
Board of Director Training	3.9	8
Co-op Basics	3.8	13
Community Economics	3.8	5
Risk Assessment/Management	3.8	9

### Priorities for Technical Assistance

The WACCO case study participants offered relatively little differentiation between the items considered for technical assistance. The only item that was identified as of somewhat lesser importance was in the area of engineering and technology. This is almost certainly not a felt need of this group since they are not involved in any sort of product transformation. All other items registered as important or very important for the participants in our study. Further, with the

exception of legal assistance, most participants identified these technical assistance options as on-going needs. Legal assistance, probably because this cooperative has completed its initial stages, was seen as something that was needed in the past but is no longer.

**Table 3: Technical Assistance**

	Average	N
Estimated Co-op Impact	5.0	1
Legal Assistance	4.5	6
Strategic Planning	4.4	15
Business Planning	4.3	6
Financial Management	4.3	15
Market Research	4.2	14
Co-op Purchasing	4.0	1
Risk Assessment	4.0	14
Engineering/Technology Planning	3.6	5

## Lessons Learned from WACCO

Perhaps the primary lessons learned from WACCO are that small rural governments are interdependent, benefit by collaborating (sharing personnel, expertise, equipment, training expenses), and can save their taxpayers money by doing so. Another key lesson learned from WACCO's experience is the importance of hiring the right person as manager. In the case of WACCO it was critical that the manager be able to talk with and gain the respect of multiple levels of the member governments. It is important, for example, that they mayor, the city administrator, the department heads and the line staff all support the cooperative. Such support is cultivated by good communications and a constant effort to highlight the successes of the collaborative effort.

A less positive lesson stemming from the WACCO experience is that innovation is not always looked upon as a positive thing. Not all eligible local governments in the area are members of WACCO and some are outspoken in their opposition to membership. Some of their opposition is stated in terms of the cost of being a member of WACCO as compared to the benefits. There is a feeling within WACCO, however, that some of their coolness toward WACCO is driven by old turf battles, a history of competition, and other less laudatory reasons. There is also concern that the competition between WACCO and LCSC may fracture the membership and make it more difficult to provide the services the cooperative is currently providing.

## Opportunities and Challenges

One participant in the study stated that the opportunities for WACCO are “endless”. Specific opportunities identified were:

- expanding the selection of goods and services offered by the cooperative,
- improving the marketing of the cooperative’s goods and services to smaller units of government,
- coordinating decisions with respect to technology decision in the region (e.g. coordinating hardware and software decisions),
- expanding group purchasing efforts (particularly in energy markets with the pending deregulation of gas and electric markets),
- preparing the area for the global economy (trade, tourism, etc.)
- helping local units of government cope with increasingly complex issues

Perhaps the greatest opportunity for WACCO over the coming years, however, is to continue to serve as an example of how collaboration between local governments can make a critical difference.

The cooperative also has a number of challenges to address in the coming years. One challenge is in the area of funding. Many of the benefits created by the cooperative are in the form of expenditures foregone--training that would have cost more if the local government had had to send their employee to Minneapolis for training. These are soft savings in the sense that the local unit of government may simply have decided not to send anyone to get trained. WACCO has an on-going challenge to educate the political decision-makers who currently fund the cooperative as to the benefits it offers. Some of these benefits are partially quantifiable (dollars of training costs saved) and some are not (the networking benefits created by the cooperative). The cooperative may need to consider

changing its funding structure from one based largely on annual dues to a cost plus margin pricing of its educational offerings and group purchasing efforts.

A second significant challenge facing the cooperative is shifting from the entrepreneurial/growth phase of its existence to a more mature institution. In its initial stages, the focus was, of necessity, on identifying the needs of its members and figuring out how to satisfy those needs. As it becomes a more mature organization, the cooperative will need to figure out how to keep its finger on the pulse of its members while developing standard operating procedures to deal with its more routine tasks and to delegate responsibilities for the routinized activities..

## Summary and Conclusions

WACCO is a very valuable model of local governments who have discovered a mechanism for improving the quality of needed goods and services while cutting costs. In an era of stagnant or declining tax dollars and increasing demand for public services, WACCO could become a model for local governments around the country. One of the key features of WACCO is that it has achieved its results without undermining local control and identity.

WACCO is not without its problems, most of which are internal. WACCO must continue to be seen as an innovative, customer-responsive, servant of its members while maturing as an institution. Making the transition from a start-up to a mature business is often difficult. WACCO is blessed with a very committed board and manager, which should ease this transition.