The State of California’s rapid response to COVID-19 has set an example for the entire country. Now, as the State begins to turn its attention toward economic recovery, California has the opportunity to save small businesses, significantly shorten the path to economic recovery, and create a foundation for a truly inclusive economy.

In its *Special Report on Coronavirus and Small Business*, MetLife and the U.S. Chamber of Commerce report that 43% of small businesses believe they have less than six months until a permanent business closure is unavoidable. Many of these businesses will still be viable on the other end of the pandemic-induced recession; however, those business owners who cannot weather the storm are creating plans to close shop for good. They will be hard pressed to find buyers, and the best candidates may actually be the people who work alongside them every day: their workers.

The State of California can support struggling business owners and workers by advancing a critical solution: supporting the transition of companies to worker ownership. Doing so will anchor essential production and services in communities, save jobs, and save the State money. Multiple studies show that worker-owners are significantly less likely to be laid off, reducing claims on unemployment insurance and other benefits. For example, a study by the National Center for Employee Ownership found that lower job losses among employee-owned firms saved the federal government approximately $17 billion in 2014, and $37 billion in 2010, a recession year (NCEO 2015).

The State of California can accelerate and support conversions to worker ownership through Financing Support and Incentives, Technical Assistance, and Education and Outreach.

### HOW CALIFORNIA CAN ACT NOW

#### CAPITAL AND INCENTIVES

1. Create a $10M fund using CARES Act, Workforce Innovation and Opportunity Act, General Fund, or other dollars to provide forgivable loans to companies that transition to worker ownership as a means of fostering business retention, quality jobs, and broad-based wealth building.
   - Allocate a portion of the fund as grants to qualified California worker ownership nonprofits for outreach, education, and technical assistance to identify business owners that are interested in selling the business to their workers and guide them through the sale and transition process.
   - This fund will utilize existing state guarantee programs, such as the Small Business Disaster Relief Program and the Small Business Loan Guarantee Program of the California Infrastructure Economic Development Bank (IBank) and the California Capital Access Program of the California Pollution Control Financing Authority (CPCFA).
2. Provide tax incentives for qualified transitions to worker ownership. For example:
   - Create a capital gains tax exemption for business owners who sell 100% percent of the
     voting control of their company to the workers, provided that workers vote for a majority
     of the board of directors on a one-person-one-vote basis. This incentive would mirror the
     federal ESOP capital gains tax exemption, but expand the incentive to include business
     owners who transition their business into a worker cooperative.

3. Reinvest worker-owned business taxes and fees into worker ownership education and TA
   programs. For example:
   - The State can allocate 3% of income tax revenue and/or a portion of Secretary of State
     entity fees received from worker-owned businesses into a fund for worker ownership
     education, outreach, and technical assistance programs.

TECHNICAL ASSISTANCE

1. Fund specialized technical assistance providers to assist business owners and workers
   in transitioning their businesses to worker ownership. For example:
   - Create a technical assistance grant program for qualified service providers to provide
     technical, legal, and financial support for business owners and workers transitioning their
     business to worker ownership.
   - Fund California Community Colleges, municipal small business programs, and qualified
     technical assistance providers to create "Boot Camp" programs to prime business owners
     and employees on what worker ownership looks like, why it works, and how to
     accomplish it.
   - Subsidize feasibility studies for 100% worker ownership transitions to cooperatives and
     Employee Stock Ownership Plans (ESOPs).
     - Iowa, Massachusetts, Colorado, and some California cities provide subsidies or loans
       for employee ownership feasibility studies.

EDUCATION AND OUTREACH

1. Promote worker ownership conversions as a critical business retention strategy that
   addresses the dual crises of COVID-19 and the “Silver Tsunami” of aging owner business
   closures. For example:
   - Fund and partner with qualified technical assistance providers to develop a statewide
     outreach campaign to business owners, workers, and lenders, with a focus on scaling up
     existing outreach efforts.
   - Disseminate information, technical assistance resources, and case studies on worker
     ownership through diverse channels, including the Governor’s Office of Business and
     Economic Development (GO-Biz) website and the State Business Resources Guide and the
     new Department of Better Jobs and Higher Wages within the Labor and Workforce
     Development Agency.
   - Provide funding for internal training and materials on worker ownership for employees of
     relevant state agencies such as small business, economic development, and labor.
   - Engage Small Business Development Centers (SBDCs), Workforce Investment Boards
     (WIBs), and others to ensure that both business owners and workers have information
     about worker ownership and resources to support this business model.

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Worker ownership is a proven strategy for ensuring that local businesses (both urban and rural) stay rooted in their communities, and that workers have stable jobs today and can build assets for the future.

Worker ownership (sometimes called employee ownership) can take a variety of forms. The most common are worker cooperatives and Employee Stock Ownership Plans (ESOPs). Worker coops are businesses owned and controlled by the worker-owners, who share in profits and elect and serve on the Board of Directors. An ESOP is a retirement plan that owns all or part of a company on behalf of its employees. Worker cooperatives have lower administrative and set-up costs and are better suited to smaller companies, while ESOPs are often preferred by larger companies because of the tax advantages.

Encouraging worker ownership is a cost-effective way to increase wealth for a broader segment of workers. Professional service and technical assistance providers are poised to immediately support both types of worker ownership transitions. Among them are Small Business Development Centers (SBDCs) which can be a conduit for delivering these services, in conjunction with experienced worker ownership experts. The Federal Main Street Employee Ownership Act (2018) mandates that the SBA and SBDCs lend and deliver assistance to employee owned businesses, as well as offer information on employee ownership to small business owners; the State can play a central role in bringing its SBDCs into compliance.

Numerous studies demonstrate the benefits of worker ownership, which include:

- **Quality jobs** with higher pay, better benefits, flexible schedules, and a voice in the workplace (DAWI 2019)
- **Asset Building** through profit sharing and retirement savings (DAWI 2019 and NCEO 2015)
- **Fewer lay-offs** (5-7x lower than companies that are not worker-owned, even during recessions)
- **Government savings:** lower job losses among employee-owners saved the federal government approximately $17 billion in 2014, and $37 billion in 2010, a recession year (NCEO 2015)

These and other benefits are summarized, and dozens of studies cited, in *The Case for Employee Ownership: why philanthropy and government should invest in this powerful business model* (Project Equity 2020).

To learn more about worker ownership, see:

- **Employee Ownership Options: find the right fit for your company** (Project Equity)
- **What is a Worker Cooperative** (DAWI)
- **How an Employee Stock Ownership Plan (ESOP) Works** (NCEO)
- Case studies of successful businesses in California that are 100% worker-owned:
  - **A Slice of New York** (Pizza Shop, Santa Clara/San Jose and Sunnyvale)*
  - **Recology** (Waste Management, San Francisco)
  - **Alvarado Street Bakery** (Wholesale Bakery, Petaluma)
  - **Flying V Farm** (Organic Farm, Placerville)
  - **FruitCraft** (Fermentery and Distillery, San Diego)
  - **Restif Cleaning Service Cooperative** (Residential and Commercial Cleaning, Eureka)*
  - **Sun Light & Power** (Solar Developer, Berkeley)*

To learn more about examples of worker-ownership transitions in California, see **Becoming Employee Owned**.

*These companies successfully transitioned to worker ownership as a win-win for the business owner and workers.*