



January 21, 2021

Ms. Keely Martin Bosler
Director, Department of Finance
State Capitol, First Floor
Sacramento, CA 95814

RE: Budget Proposal for Worker Ownership Transitions to Protect Small Businesses

Dear Director Bosler:

We appreciate Governor Newsom's proposals to support small businesses outlined in the proposed 2021-22 budget. It is in this spirit that we urge you to continue your integral leadership in protecting small businesses and their workers so that we can rebuild the economy with inclusion and equity at the forefront. We also have similar questions as members of the legislative budget committees about whether the \$575 million in the early-action budget and the proposed \$4.5 billion in overall small business relief would be targeted equitably.

California's small businesses face a dual crisis: added to the COVID-19 induced economic shutdown, the small business sector continues to contend with the pressures of the Silver Tsunami of baby boomer business owners who are at or near retirement age and desperately looking for an exit. According to national surveys, 79% of business owners want to retire within 10 years, 60% in less than 5 years, and 33% in less than 3 years. However, only 15% of businesses successfully transition to the next generation in the family, and only 20% of commercial listings actually sell.¹ Rather than closing for good or selling to large, out-of-state buyers, small business owners can find willing buyers in the people who work alongside them every day: *their workers*. Doing so will anchor essential production and services in communities, protect livelihoods, avert layoffs, and save the State money.^{2,3,4}

Our group, the Worker-Owned Recovery California (WORC) Coalition, was formed by state and national experts, worker-owned companies, and labor unions working for years to advance worker ownership in communities most impacted by social and economic inequities. Building

¹ Business Enterprise Institute, Inc. (2016). [Business Owner Survey Report: How, When, and Why Owners Plan to Exit](#). Denver, CO.

² Hilary Abell. (May 2020). [The Case for Employee Ownership: Why philanthropy and government should invest in this powerful business model](#). Project Equity; Oakland, CA.

³ Corey Rosen. (July 2015). [The Impact of Employee Ownership and ESOPs on Layoffs and the Costs of Unemployment to the Federal Government](#). National Center for Employee Ownership; Oakland, CA.

⁴ The Employee Ownership Foundation. (October 2020). [Employee-Owned Firms in the COVID-19 Pandemic: How Majority-Owned ESOP & Other Companies Have Responded to the COVID-19 Health and Economic Crises](#). International Employee Ownership Center; Washington, DC.

on the final report of the Task Force on Business and Jobs Recovery, provisions in the 2020 Budget Act, and recommendations from The Little Hoover Commission's recent report, [First Steps toward Recovery: Saving Small Businesses](#), WORC respectfully submits the following for consideration in the 2021-22 Budgets:

Recommendation #1: Ensure Accessibility of Relief and Supports for Worker-Owned Small Businesses

Clarify that worker-owned businesses or businesses seeking to access State funds for conversion to worker-ownership are eligible entities for all financial assistance made available to small businesses more broadly. This includes, but is not limited to, the proposed \$575M increase to CalOSBA's COVID Relief Grant as well as existing small business supports such as IBank's loan guarantees or CA Rebuilding Fund. The State must remove unnecessary administrative burdens and ease access for prospective and current worker-owned businesses as a viable small business retention strategy.

Recommendation #2: Employee Ownership Outreach Campaigns through State Agencies

Working with an advisory group from the employee ownership field, launch a three-year, \$1.5M worker ownership awareness campaign through GO-Biz, IBank, and LWDA targeting California's small business owners, workers, lenders, economic development stakeholders, and consumers. These campaigns would educate California's small business owners about worker ownership as a succession plan and exit option; workers about the job-saving and wealth-building potential of worker buyouts; lenders and economic development stakeholders about the viability and mechanics of these business transitions; and consumers about the community-level benefits of shopping worker-owned.

Recommendation #3: Expand Capital for Worker Ownership Transitions through IBank Loan Guarantees and Incentives

Allocate \$35M to support IBank guarantees within its Small Business Finance Center to facilitate worker ownership transitions across rural and urban communities statewide, in alignment with IBank initiatives like Social Entrepreneurs for Economic Development (SEED), and the CA Rebuilding Fund. Recommended components include 95% IBank guarantees on loans for worker buyouts, favorable terms such as below-market interest rates, extended maturities, and provisions for full or partial forgiveness of loan principal or interest under specified, equity-driven conditions. This could also involve removing regulatory barriers (e.g. unnecessary personal guarantees), and raising awareness among IBank's participating lenders regarding worker ownership.

Recommendation #4: Feasibility Study Subsidies

Provide direct funding to subsidize feasibility studies for worker-ownership transitions to worker cooperatives and 100% Employee Stock Ownership Plans (ESOPs). Existing funding streams are already available for this purpose (e.g. WIOA Rapid Response dollars for layoff aversion and High Road Training Partnerships) and require administrative clarity from the State. Other programs may also benefit from similar clarifications (e.g. CA Rebuilding Fund, future federal pandemic stimulus).

Employees becoming owners will create opportunities for wealth-building and community stability, and help California to not just survive COVID-19, but to create a more inclusive, equitable and stable economy fit for the 21st century. WORC appreciates your consideration of these evidence-based recommendations for the proposed budgets, and requests a follow-up conversation at your office's earliest convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Yassi Eskandari', with a stylized flourish at the end.

Yassi Eskandari, Esq.
Coordinator, WORC

cc: Clint Kellum, Department of Finance
Jamie Callahan, Office of Governor Newsom
Angela Pontes, Office of Governor Newsom