

April 16, 2021

The Honorable Sabrina Cervantes  
Chair, Assembly Jobs, Economic Development, and the Economy  
State Capitol, Room 2175  
Sacramento, CA 95814

## **RE: Worker Ownership for Rebuilding an Inclusive and Equitable Economy**

Dear Chair Cervantes:

We appreciate your leadership in convening informational committee briefings early this year focused on rebuilding our economy with inclusion and equity at the forefront, as well as this opportunity to offer policy recommendations on how the American Rescue Plan stimulus (ARP) could be implemented along those values.

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. 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.<sup>1</sup> Rather than closing for good or selling to large, out-of-state buyers, California's 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.<sup>2,3,4</sup>

The following policy recommendations are focused on how the State can further promote worker-ownership amongst California's small businesses and their workers, aligning with

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

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

<sup>3</sup> 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.

<sup>4</sup> 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.

various pandemic-recovery recommendations from the Little Hoover Commission, Public Policy Institute of California, and the Future of Work Commission:

### **Worker Ownership Outreach Campaigns through State Agencies**

Working with an advisory group from the worker-ownership field, launch a worker-ownership awareness campaign through GO-Biz, California Workforce Development Board 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. An immediate step could be launching an online portal and hotline that would support workers and businesses interested in conversions as New York City did during the pandemic.<sup>5</sup>

### **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. The State must remove unnecessary administrative burdens and ease access for prospective and current worker-owned businesses as a viable small business retention strategy. This includes, but is not limited to:

- The inclusion of "cooperatives" affirmatively in the list of eligible entities in the second phase of the CalOSBA's COVID-19 Relief Grant via SB 87 (Caballero/Min, Statutes of 2021). This is a positive step forward, but similar to nonprofit organizations, worker-owned businesses do not have a "principal owner" which could have a chilling effect on prospective worker-owned applicants. Future applications for small business supports, such as loans or grants, could use more accessible language such as "principal owner or authorized representative."
- The inclusion of "cooperatives" affirmatively in the list of entities eligible to participate in credit support programs funded by the State Small Business Credit Initiative (SSBCI) provided by the ARP, as well as inclusion of businesses transitioning to worker ownership as an eligible use of such credit support programs. This could include participation in the California Capital Access Program (CalCAP), the Small Business Loan Guarantee Program (SBLGP), or other credit support programs established with SSBCI funds.
- Build on the inclusion of employee-ownership and worker-cooperatives in related COVID relief grant RFPs (e.g., Labor & Workforce Development Agency-Employment Training Panel's SEED Initiative and the Workforce Development Board's Workforce Accelerator Fund 9.0) to integrate these strategies more generally into state funding for economic development. This could include issuing guidance to SBDCs, FDCs, CDFIs, and their implementation partners to affirm that worker-owned businesses are eligible for their programs, notwithstanding required eligibility guidelines.

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<sup>5</sup> Employee Ownership NYC. (2020). *Owners to Owners Business Transition Hotline*. New York City; NY. Accessible at <https://www.owner2owners.nyc/>

**Expand Capital for Worker Ownership Transitions**

State guidance could facilitate worker ownership transitions across rural and urban communities statewide by removing unnecessary barriers. For example, lenders often require unnecessary personal guarantees which are difficult or impossible for worker-owned entities to comply with, but there are effective approaches to loan underwriting such as cash-flow-based underwriting that do not require personal guarantees. Other recommended options 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.

**Clarifying Guidance for Existing, Federally Funded Feasibility Study Subsidies**

Under federal regulations, California may already subsidize feasibility studies for worker-ownership transitions to Worker Cooperatives and 100% Employee Stock Ownership Plans (ESOPs), but this opportunity is not well known and therefore underused. 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., ARP implementation). LWDA could engage in areas of no-cost reforms to encourage worker-owned conversions:

- LWDA and CWDB could increase education amongst workforce system partners regarding worker ownership as a viable option for layoff aversion, including issuing a directive on deploying Rapid Response funds to support employee ownership as a layoff aversion tactic.
- Training/capacity building for workforce system partners including presentations on partnerships between worker-ownership service providers and workforce development boards, providing guidance on feasibility studies as one such use.
- Advance information and education programs with the community college system, piloting first with Mission College in Santa Clara, as a scalable approach to educational programs on worker ownership. Examples include, but are not limited to: Rapid Conversion Academy, LA Union Cooperative Initiative, and Cooperation Humboldt. Santa Clara's Mission College is piloting a potential certificate program around Worker Cooperatives and is looking at utilizing Strong Workforce funds for some of this work.

Making owners out of employees 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. We appreciate your consideration and would be happy to continue this conversation with you or your committee staff, and through your Small Business Roundtable.

Sincerely,

Worker-Owned Recovery California

cc: Toni E. Symonds, JEDE Chief Consultant