



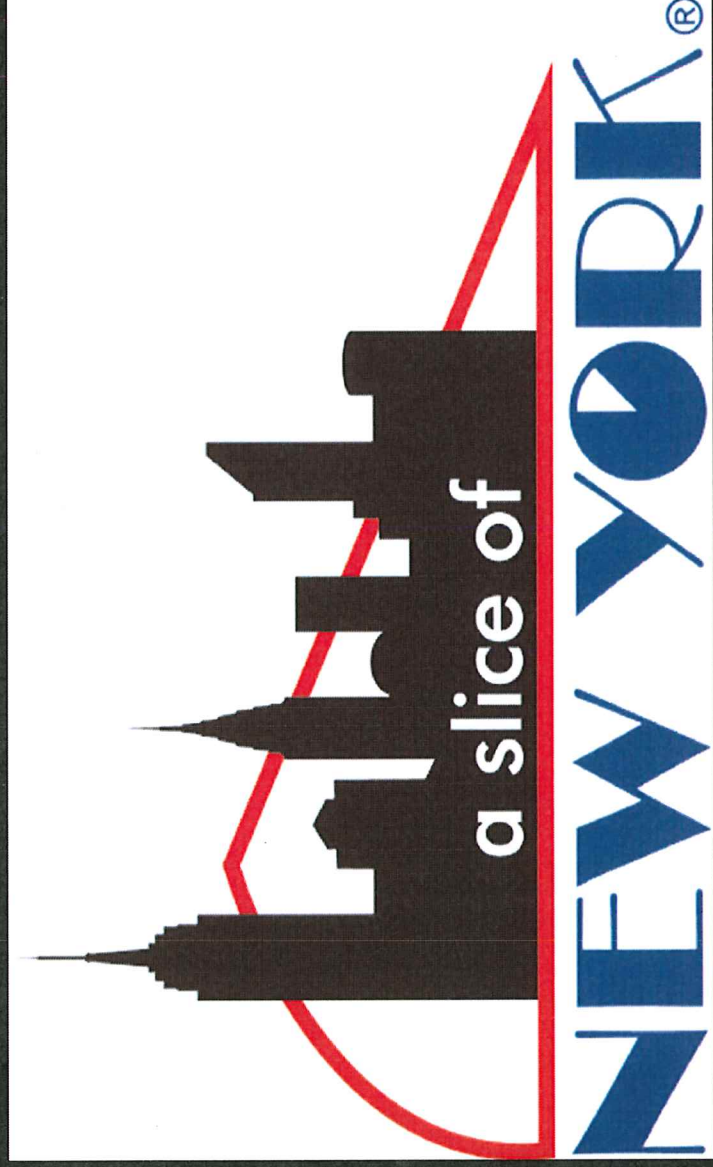
Kirk Vartan
General Manager, President, Founder

POST MEETING MATERIAL

Agenda

- Brief overview of a cooperatives (co-ops)
- Employee owned, controlled, benefiting
- Co-ops achieves many goals and can scale
- Mainstream acceptance – Federal Law
- ASONY's experience, process, and costs
- Ask: Educate/Inform business community, as well as the general public- Study Session

Cooperative Overview



A bit about coops in general:

Consumer cooperative
Buying together



Producer cooperative
Selling together



Worker cooperative
Working together



What is a Worker Cooperative?

**Member Owned
Member Controlled
Member Benefiting**

BECOME A MEMBER

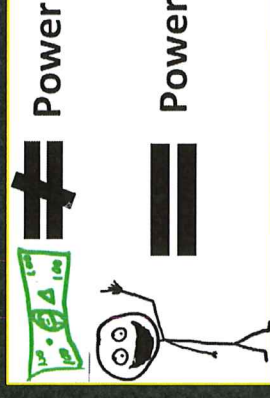
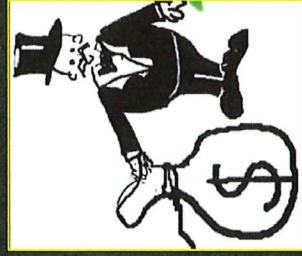
Member Controlled

Coops are run by the **democratic principle** of
“one member, one vote.”

Member-owned cooperative:

One member = One vote

(Typically) Led by *member-elected* board of directors



Investor-owned company:

More shares = more votes

Led by outside shareholder appointed management

Similar to City Government

Operating Agreement = Charter

General Manager = City Manager

Elected Board = City Council

Members = Residents

Governance, Committees, Assets, Revenue



Worker Cooperatives at Scale



A region with 42M people using coops to battle unemployment

More than 7,500 coops, two-thirds of which are worker-owned.

Ten percent of the workforce is employed by co-operatives.



MONDRAGON

Finance
Industry
Retail
Knowledge

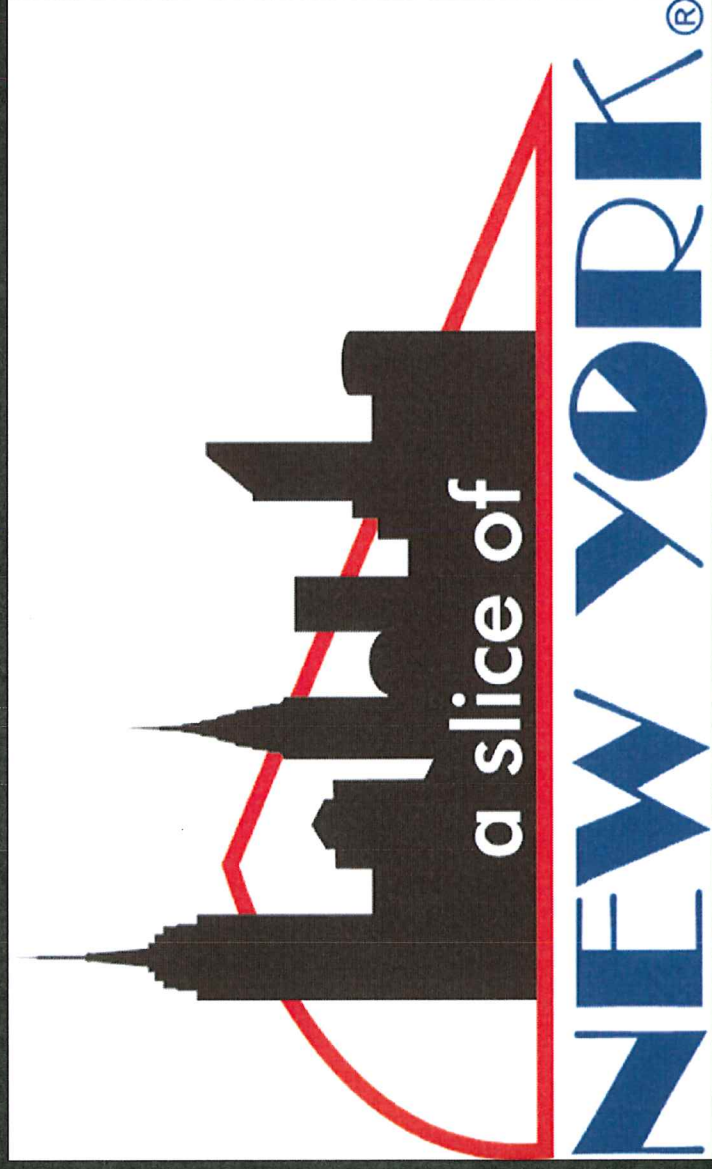
HUMANITY
AT WORK

Over 80,000 worker-owners in Spain's Basque region.

110 cooperatives, 147 subsidiary companies, 8 foundations and a benefit society

Assets: €35.8B; Revenues: €14B

How and Why



Why do businesses choose to convert?

Four core reasons:

1. As an **exit strategy** for the owner, whether leaving for retirement or other reasons
2. As a **component of the business' mission**, recognizing the employees as an important stakeholder group
3. To create **wealth-building opportunities** for employees, especially in lower-wage sectors
4. Because **it's good business**: employee-owned businesses have demonstrated their ability to be **more financially successful** than their peers, and to weather economic storms more effectively

What's on the Horizon?

6 out of 10 business owners plan to sell their business in the next decade. As most retire, our local business landscape is about to go through a dramatic shift.

ONLY 15%
of businesses
succeed to the
next generation.

63,640

Businesses Owned by Baby Boomers
in SF Bay Area Metro Region

Employees: 625,900
Payroll: \$36.62B
Sales: \$149.5B

**BABY BOOMERS OWN ALMOST
HALF OF ALL PRIVATELY-HELD
BUSINESSES IN THE BAY AREA.**

Main Street Employee Ownership Act

115TH CONGRESS
2D SESSION

H. R. 5236

To expand opportunities available to employee-owned business concerns through Small Business Administration loan programs, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Ms. VELÁZQUEZ introduced the following bill; which was referred to the Committee on _____

A BILL

To expand opportunities available to employee-owned business concerns through Small Business Administration loan programs, and for other purposes.

1 *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

2 **SECTION 1. SHORT TITLE.**

3 This Act may be cited as the "Main Street Employee

4 Ownership Act of 2018".



Provides *directives* to the SBA

- Finance the transition of existing businesses to worker-owned companies.
- Training and education around worker cooperatives.
- Tracking lending and support provided to employee-owned businesses.

LOCAL CHAMPIONS



A Slice of NY
California

Trained Conversions Guides

A. Tain & A. Hall: Uniting Cooperative (W)
 Bank America: Wealth Alliance (MN)
 Brooklyn: Chairman of Commerce (NY)
 Bureau: SDC (NY)
 Center for Economic Democracy (MA)
 Center for Family Life (NY)
 Cooperative Development Services (MN)
 Democracy at Work Network (National)
 Ford: SDC at FIU (FL)
 Fund for Democratic Communities (NC)
 Indiana Cooperative Development Center (IN)
 Iowa State University (IA)
 Martignetti & Hansen, LLP (CA)
 National Center for Employee Ownership (National)
 Neighborhood Development Center (MN)
 New School of Montpellier (VT)
 New York Cooperative Network (NY)
 New York Community Partners (MN)
 Northwest Cooperative Development Center (W)
 NN Network of Worker Cooperatives (NY)
 Onesticks Associates (MA)
 Philadelphia Area Co-op Alliance (PA)
 Pross Advisors (GA)
 Pross Consulting Group (PA)
 Presidio Graduate School (CA)
 Replications Law (WA)
 Rocky Mountain Farmers Union (CO)
 Rural Action, Inc. (OH)
 Tait Steinhaus & Holistic LLP (IN)
 Texas Rural Cooperative Center (TX)
 United League of Boward County (FL)
 U.S. Federation of Worker Cooperatives (National)
 USDA Rural Development (National)
 Valley Alliance for Worker Cooperatives (WA)
 Women's Venture (IN)
 Worcester Roots (MA)

National Center for Employee Ownership (National
 Montgomery & Mangini, LLP) (CA)
 Monthly-based, One placement, Center (M&M)

- American Working Capital (MA)
- Bankfield State Bank (CA)
- Carolina Common Enterprise (NC)
- Coop Law Group (CO)
- Cutting Edge Capital (CA)
- Jason Wiener, Attorney at Law (CO)
- Local Enterprise Assistance Fund (MA)
- Owenship Associates (MA)
- Steiner, Greenapple & Cousot, P.C. (PA)
- Sustainable Economics Law Center (CA)
- Tuttle Law Group (CA)
- Neighborhood Development Center (MN)
- New School of Montpelier (VT)
- New York Cooperative Network (NY)
- Newest Community Partners (MN)
- Norwest Cooperative Development Center (WA)
- NYC Network of Worker Cooperatives (NY)
- Owenship Associates (MA)
- Philadelphia Area Co-op Alliance (PA)
- Praxis Advisors (CA)
- Praxis Consulting Group (PA)
- Presidio Graduate School (CA)



FEDERAL AND REGIONAL SUPPORT

- Maine, New York, Pennsylvania, Rhode Island, Colorado and Massachusetts have all passed supportive state-level policy for employee ownership in 2017, with Massachusetts re-funding its statewide employee ownership center.
- Senator Kristen Gabbard introduced three pieces of legislation on employee ownership in the Senate, with continued support.
- Representative Keith Ellison is introducing an omnibus bill focusing on worker cooperatives in the House. W20 partners helped inform both pieces of legislation.
- Senator Tammy Baldwin introduced The Worker Owned Wealth Act aimed toward boosting employee ownership.

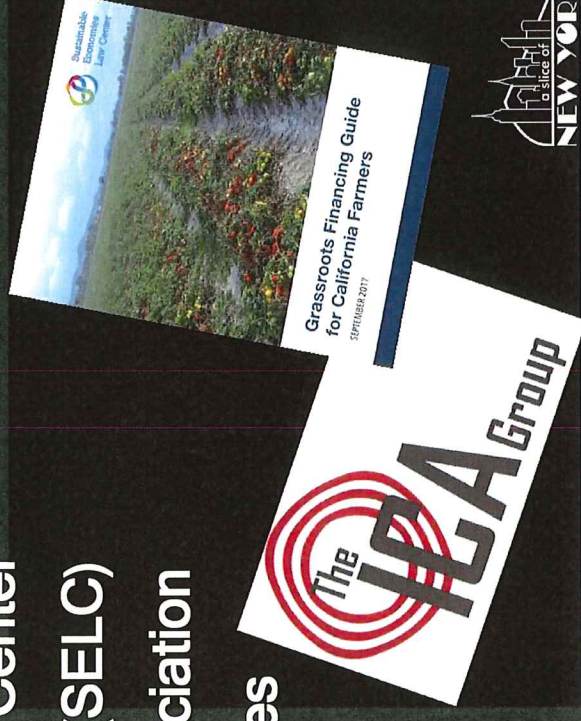
What and Santa Clara Do?

1. **Study Session** for awareness
2. Ordinance for co-ops
3. Create **Economic Development fund** for conversions
4. Engage conversion experts (e.g., Project Equity)
5. Inventory City businesses and identify legacy businesses
6. Planning/permitting systems compatible with co-ops
7. Participate in creation of credit system to support co-ops
8. Create '**legacy business**' category for business protections



Available Resources (just a few)

- Co-opLaw.org (a product of SELC)
- *Think Outside the Boss Manual*
- Democracy at Work Institute
- California Cooperative Development Center
- Sustainable Economies Law Center (SELC)
- National Cooperative Business Association
- US Federation of Worker Cooperatives
- US Solidarity Economy Network
- ICA Group
- Project Equity

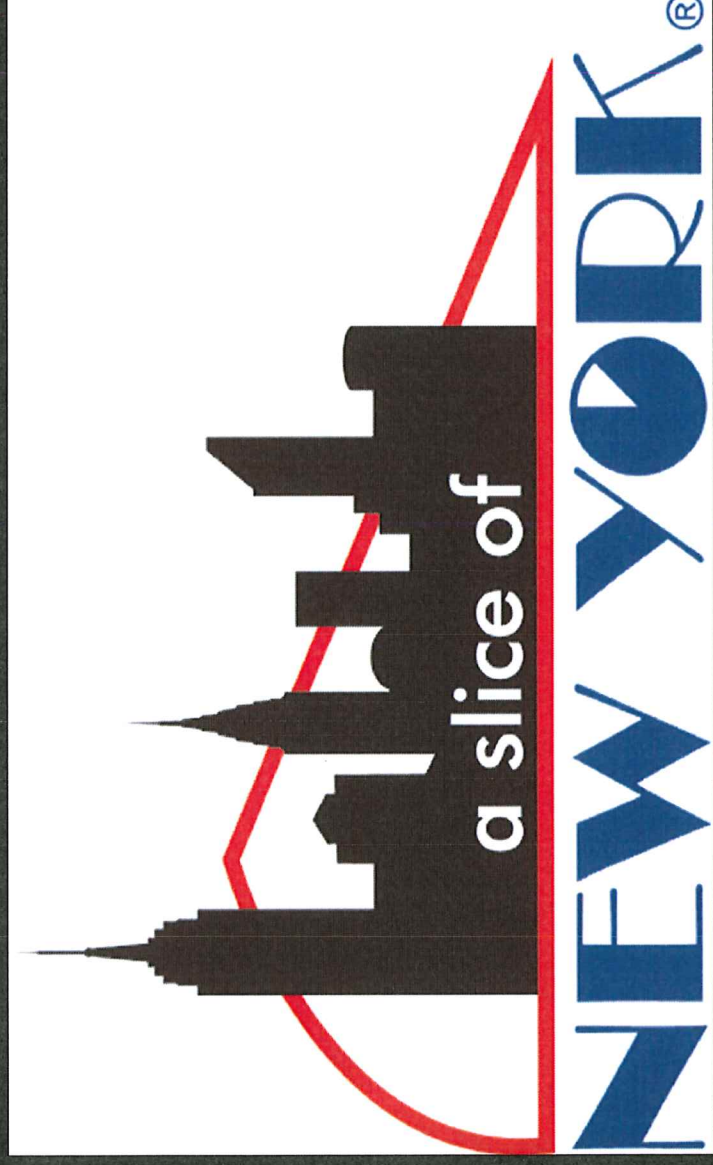


Additional Resources

- A lot of documents, resources, and information
<https://drive.google.com/drive/folders/1bDBqElf0wiQaFxfNCwJ-UNwmQuXkmZBG>
- A Slice of New York (Santa Clara's own) - asony.com
- Project Equity - project-equity.org
- US Federation of Worker Cooperatives - usworker.coop
- Democracy at Work Institute - institute.coop
- City of Berkeley - cityofberkeley.info
- Cities of Oakland, SF, and others



How Did ASONY Convert?



ASONY Process (high level)

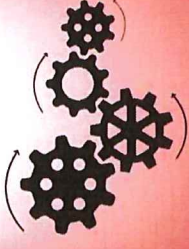
1. Identified an internal Business Development team (culture)
2. Engaged Project Equity for conversion
3. Secured co-op legal and accounting resources
4. Created our company constitution (Operating Agreement)
5. Valued the company
6. Drew up legal documents, including a promissory note
7. Executed the transaction
8. Signed on new members

This is a very collaborative, transparent, and inclusive process



How Does It Work?

1. The sale is financed through company profits
2. Owner holds 5 year note (can be private or financed)
3. Employees apply to become members (criteria)
4. Members elect a board for governance
5. Members and non-members work along side each other
6. Profit sharing (patronage) is “by right” → % contribution
7. Existing legal structures (e.g., LLC) are used



Created by Altair Palman
from Nolan Project



Co-op Challenges

1. Awareness (what's a co-op?)
2. Local resources/support (who do you turn to?)
3. Time to convert (it took us a year...goal of <6 months)
4. Cost to convert (expect \$15-45K – ultimately a % of value)
5. The majority of businesses do not understand co-ops yet
6. Traditional requirements not compatible (leases, CC)



ASONY Member Requirements

1. Been an employee of ASONY for a **minimum of 12 months**
2. Worked a **minimum of 1,200 hours**
3. On the schedule for at least **25 hours per week**
4. \$750 deposit (**\$3,000 total** membership fee)
5. Willing to work outside of shop hours (e.g., meetings, committees, etc.)
6. **Two year commitment**



My Ask of this Committee

- **Direct Staff to hold a Council Study Session**
- Consider funding (budget item) for worker cooperative activities/planning
- Consider Economic Development budget line item
- Please **clearly communicate to Staff** that understanding how Santa Clara can embrace **worker cooperatives is a priority**.





Melanie Day



2 hours ago

Delicious pizza by the slice. Can get whole pies, too. When I ate pizza by the slice in New York, I found myself craving this pizza instead.



(owner)

Just now

Hi Melanie, thank you for the great review and comment. Honestly, I don't know if there is a better complement or review we could ever get. Much obliged! -Kirk, GM/Founder, A Slice of New York

Backup Info

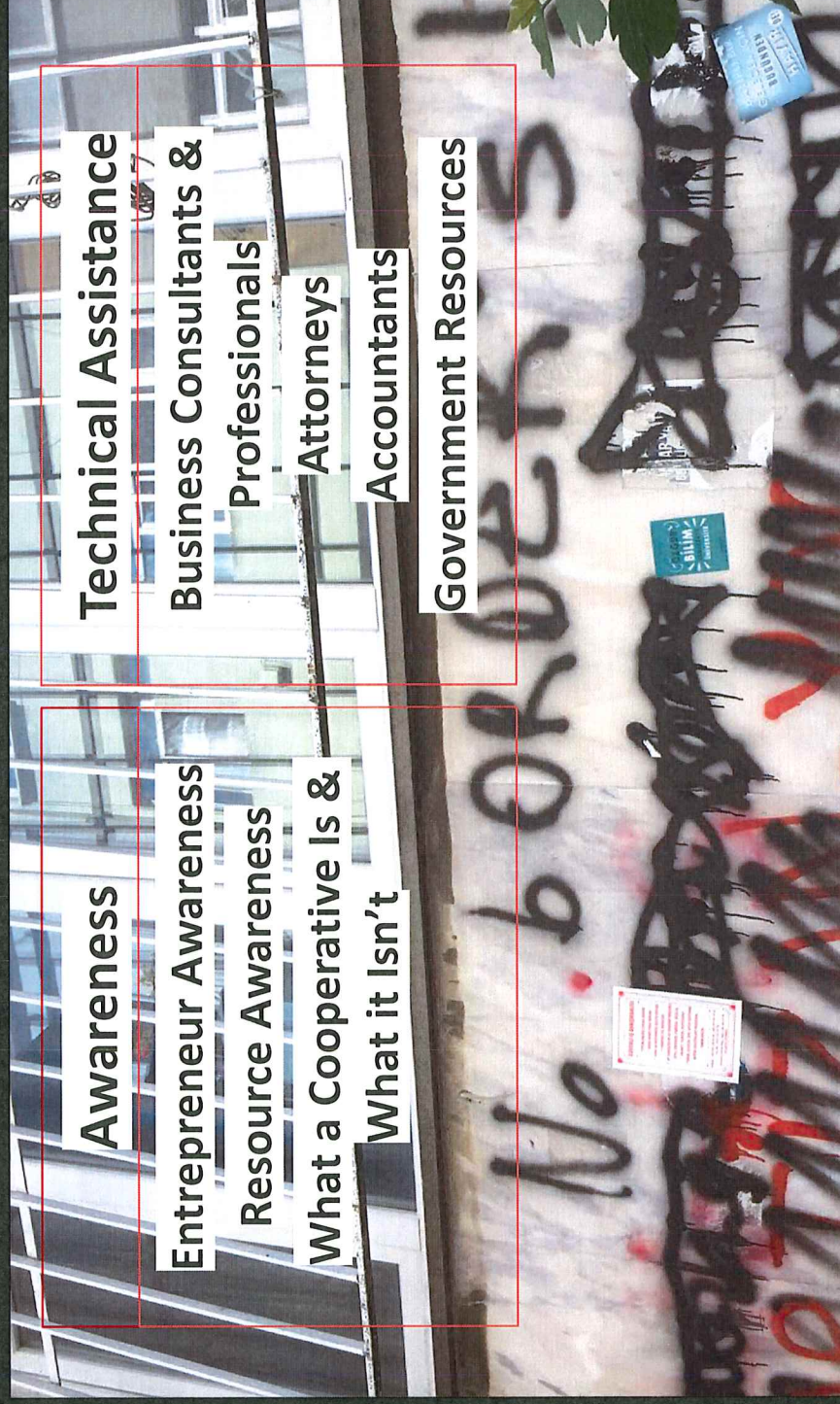


Why start a worker coop?



A thriving worker coop embodies all of these values, but may emphasize one over the others.

Common Barriers



Awareness

Entrepreneur Awareness

Resource Awareness

What a Cooperative Is &

What it Isn't

Technical Assistance

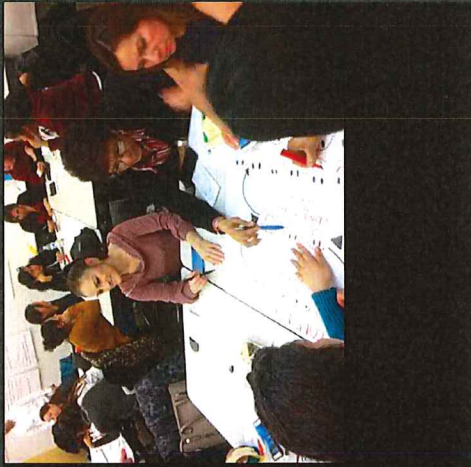
Business Consultants &

Professionals

Attorneys

Accountants

Government Resources



15

NEW WORKER COOPERATIVES
WERE STARTED THIS YEAR

11

CONVENTIONAL BUSINESSES
CONVERTED TO
WORKER OWNERSHIP

WORKER CO-OPS ACROSS THE U.S.

WE ESTIMATE THAT THERE ARE

357

WORKER COOPERATIVES AND
DEMOCRATIC WORKPLACES

WITH AN ESTIMATED*
WORKFORCE OF

6,833

AND AN ESTIMATED*
TOTAL GROSS REVENUE OF

\$428,188,895

THE TYPICAL WORKER COOPERATIVE

EMPLOYS

9.5

WORKERS, WHO MAKE

\$15.82

PER HOUR, AND WORK

30.35

HOURS PER WEEK

BRINGS IN AN AVERAGE OF

\$3,930,786

IN REVENUE EACH YEAR,
AN AVERAGE PROFIT OF

\$150,075

AND ON AVERAGE
HAS A PROFIT MARGIN OF

3%



THE SMALL BUSINESS CLOSURE CRISIS

6 out of 10 business owners plan to sell their business in the next decade.

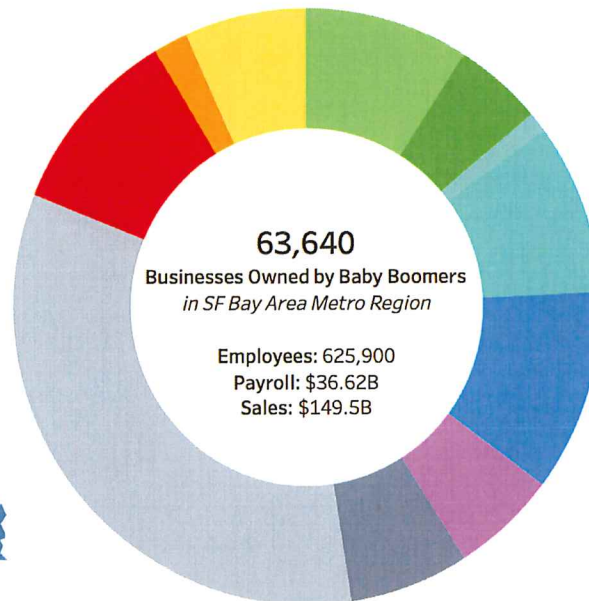
As most retire, our local business landscape is about to go through a dramatic shift.

BABY BOOMERS OWN ALMOST HALF OF ALL PRIVATELY-HELD BUSINESSES IN THE BAY AREA.

SAN FRANCISCO BAY AREA



of Employees Affected
15,000 160,700



Industry

- Accommodation & food services
- Admin & waste management
- Arts & entertainment
- Construction
- Health care & social assistance
- Manufacturing
- Other industries
- Professional services
- Retail Trade
- Transportation & warehousing
- Wholesale Trade

project
{EQUITY}

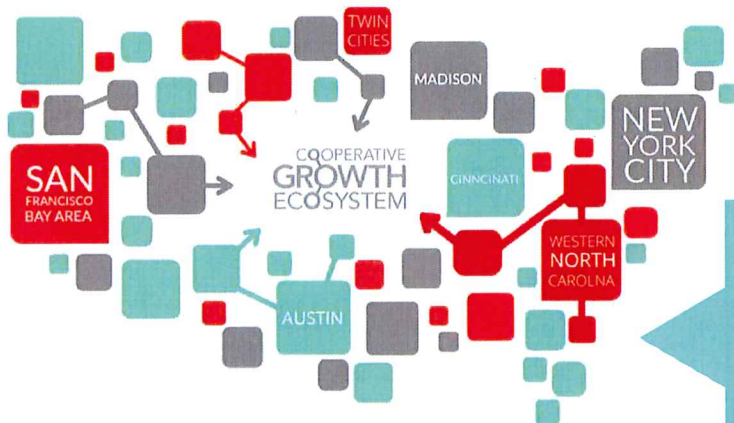
SMALL BUSINESSES ARE THE LIFEBLOOD OF OUR ECONOMY

They make up 99% of all firms and provide 49% of all jobs in the Bay Area metro region. In addition, they circulate 3x more money back into the local economy than absentee-owned businesses and corporate chains.

THE EMPLOYEE OWNERSHIP SOLUTION

Employee ownership deepens the impact of local businesses and keeps them locally-owned for the long term.

PROJECT EQUITY HELPS COMMUNITIES RETAIN SMALL BUSINESSES



Let Project Equity help you track the impact of baby boomer retirements in your region and turn crisis into opportunity.

BENEFITS TO BUSINESSES

- Higher productivity and growth
- Lower employee turnover
- Improved longevity and lasting legacy



BENEFITS TO WORKERS

- Better pay and benefits
- Assets and business ownership
- Voice in key decisions



BENEFITS TO COMMUNITIES

- Increased local spending
- Heightened civic engagement
- Community wealth building

project
{EQUITY}

INTERESTED IN LEARNING HOW BUSINESSES CAN TRANSITION TO EMPLOYEE OWNERSHIP AND COMMUNITIES CAN KEEP GOOD JOBS?

VISIT PROJECT-EQUITY.ORG

SELLING TO YOUR EMPLOYEES AS AN

EXIT STRATEGY

FOR YOUR BUSINESS

How are employee-owned businesses structured?

It is important to choose the form of employee ownership that is the best fit for you and your business. ESOPs and worker cooperatives have been around for decades. Worker coops are 100% employee-owned, and have democratic practices such as majority board representation built in to the structure. ESOPs can be fully or partially employee-owned, and Democratic ESOPs integrate employee voting and board representation.

ONLY 15%

of businesses
succeed to the
next generation.



How does employee ownership work as an exit strategy?

An owner sells the business or its assets to a new employee owned business of which the employees are members. Or, in the case of an ESOP, sells the company shares to a trust that acts on behalf of the employees. This sale is typically financed by debt (non-voting equity is possible in a worker coop transition). Then, the newly employee-owned company pays down the financing out of future profits.

Why should I consider converting my business?

Broad-based employee ownership sustains quality jobs, creates stronger businesses, and preserves your company's legacy. You are able to create a flexible exit strategy and realize a fair sales price with tax advantages while taking care of your employees who helped build the business.

Realize market value
with tax advantages.

Preserve your
company's culture
and its legacy
in the community.

**A GREAT SOLUTION
FOR BUSINESSES
OF ALL SIZES!**

project
{EQUITY}

Let us guide you
through the process.
PROJECT-EQUITY.ORG

BUSINESSES



- Higher productivity & growth
- Lower employee turnover
- Improved lifespan

COMMUNITIES



- Retain good businesses & jobs
- Experience greater civic engagement
- Circulate more money locally

EMPLOYEES



- Enjoy better pay & benefits
- Build assets & equity
- Have a voice in key decisions
- Grow leadership skills

EMPLOYEE OWNERSHIP STRUCTURES ● ● ● ● ●

	Worker Coop	Democratic ESOP	ESOP	Trust
100% employee ownership	✓	Recommended	Sometimes	Indirect
Direct employee share ownership	✓	No	No	No
Profit-sharing	✓	Recommended	Sometimes	✓
Democratic governance	✓	✓	No	✓
Annual valuation required	No	✓	✓	No
Suitable company size	All sizes	Large	Large	Medium to Large

STEPS TO TAKE ● ● ● ● ● ● ● ● ● ● ● ● ● ● ● ●

1. EXPLORE

- Research the idea
- Clarify your objectives
- Get people interested

3. PREPARE

- Secure valuation
- Identify financing options
- Develop terms of sale & bylaws

2. ASSESS

- Assess feasibility
- Engage key employees
- Develop roadmap & timeline

4. CONVERT

- Finalize the sale
- Elect officers of the board
- Approve the bylaws

Visit PROJECT-EQUITY.ORG for in-depth case studies, to learn from other business owners, and for more information about employee ownership succession.