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

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Cooperative Overview

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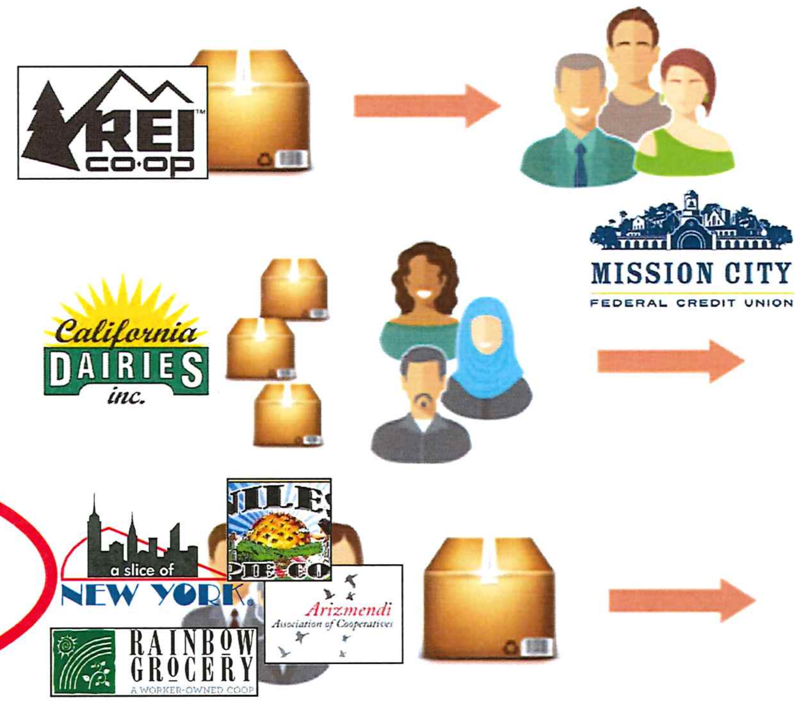
A bit about coops in general:

Consumer cooperative
Buying together

Producer cooperative
Selling together

Worker cooperative
Working together



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What is a Worker Cooperative?

Member Owned
Member Controlled
Member Benefiting

BECOME A MEMBER

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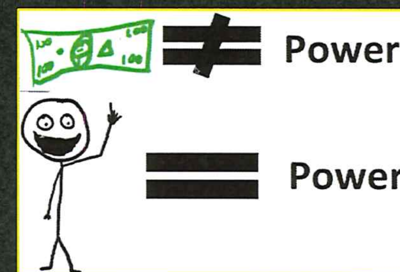
Member Controlled

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

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Worker Cooperatives at Scale

Regione Emilia-Romagna

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 HUMANITY AT WORK Finance Industry Retail Knowledge

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

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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.

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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.

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

SECTION 1. SHORT TITLE.

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

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NATIONAL SNAPSHOT

LOCAL CHAMPIONS

Champions are trained by the Workers to Owners Collaborative to be allies in creating pipelines and policies that will help business owners explore the conversion of their business. Many are formally trained as Conversions Guides, and get tools, case studies, webinar trainings, and other resources from the Collaborative to decrease the costs of broadcasting the idea locally. These evangelists of conversions can articulate the benefits to business owners and make informed professional referrals for the technical aspects of the deal. In 2017, over 250 people attended a Conversion Guide training, and more became Champions through their working relationships with Collaborative partners.

Affiliated Local Government and Economic Development Partners

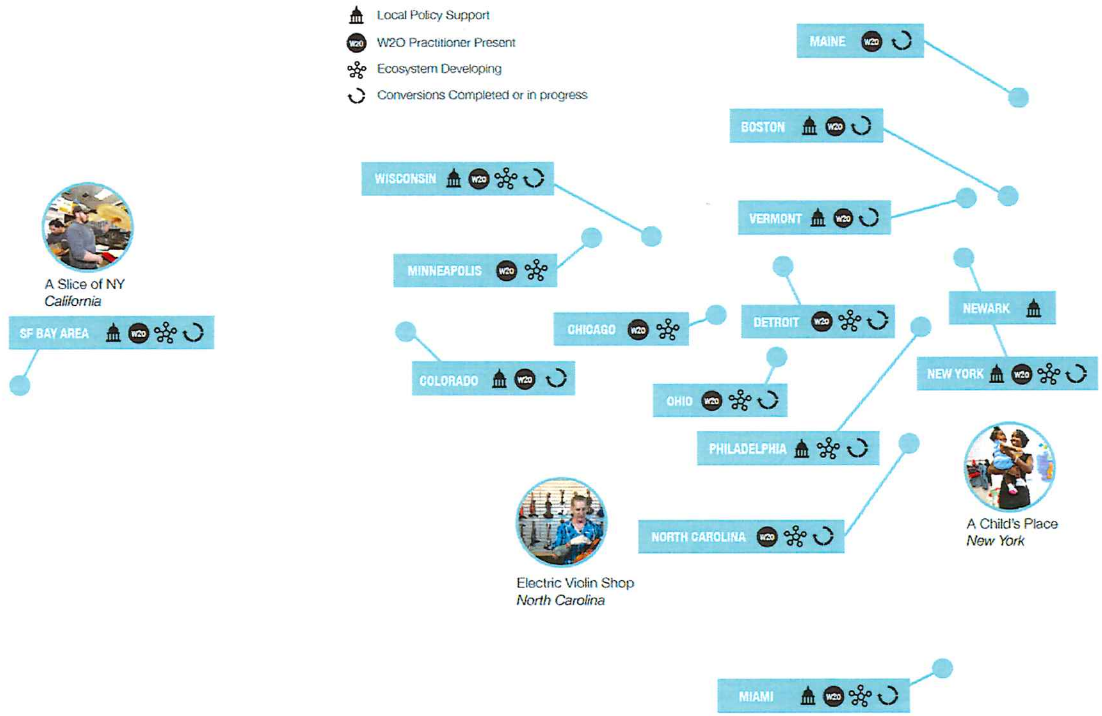
Burke Development, Inc. (NC)
City and County of San Francisco, Office of Economic and Workforce Development, Legacy Business Program (CA)
City of Boston (MA)
City of Newark (NJ)
Eastern Maine Development Corp. (ME)
NYC Small Business Services (NY)
Office of the Mayor, Berkeley (CA)
San Pablo Economic Development Corp. (CA)
Sunrise Economic Council (ME)

Affiliated Service and Capital Providers

American Working Capital (MA)
Beneficial State Bank (CA)
Carolina Common Enterprise (NC)
Coop Law Group (CO)
Cutting Edge Capital (CA)
Jason Weiner, Attorney at Law (CO)
Local Enterprise Assistance Fund (MA)
Ownership Associates (MA)
Steiker, Greenapple & Croscut, P.C. (PA)
Sustainable Economies Law Center (CA)
Tuttle Law Group (CA)

Trained Conversions Guides

A Yard & A Half Landscaping Cooperative (MA)
Black Womens Wealth Alliance (MN)
Brooklyn Chamber of Commerce (NY)
Buffalo SBDC (NY)
Center for Economic Democracy (MA)
Center for Family Life (NY)
Cooperative Development Services (MN)
Democracy at Work Network (National)
Florida SBDC at FIU (FL)
Fund for Democratic Communities (NC)
Indiana Cooperative Development Center (IN)
Iowa State University (IA)
Montgomery & Hansen, LLP (CA)
National Center for Employee Ownership (National)
Neighborhood Development Center (MN)
New School of Montpelier (VT)
New York Cooperative Network (NY)
Nexus Community Partners (MN)
Northwest Cooperative Development Center (WA)
NYC Network of Worker Cooperatives (NY)
Ownership Associates (MA)
Philadelphia Area Co-op Alliance (PA)
Praxis Advisors (GA)
Praxis Consulting Group (PA)
Presidio Graduate School (CA)
Reparations Law (WA)
Rocky Mountain Farmers Union (CO)
Rural Action, Inc. (OH)
Taft Stettinius & Hollister LLP (IN)
Texas Rural Cooperative Center (TX)
Urban League of Broward County (FL)
U.S. Federation of Worker Cooperatives (National)
USDA Rural Development (National)
Valley Alliance for Worker Cooperatives (MA)
Women Venture (MN)
Worcester Roots (MA)



The map above shows the many cities across the country that have initiated support for employee ownership conversions, from funding to tax policy to procurement to awareness initiatives. The vast majority of government support is at the local level. However, in 2017, federal and state elected officials have markedly increased efforts to craft supportive policy for employee ownership, with the active input of W2O members and partners.

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 Kirsten Gillibrand 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. W2O 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

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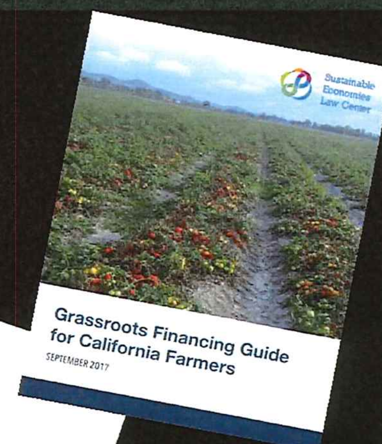
Available Resources *(just a few)*

- 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

Co-opLaw.Org
a SELC e-resource library



The ICA Group

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Additional Resources

- A lot of documents, resources, and information https://drive.google.com/drive/folders/1bDBgElf0wiQaFxfNCwJ-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?

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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

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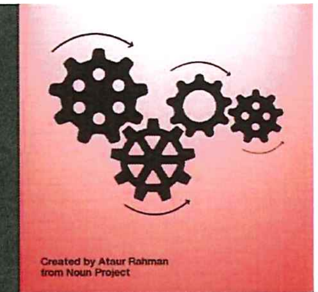
How Does It Work?



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

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

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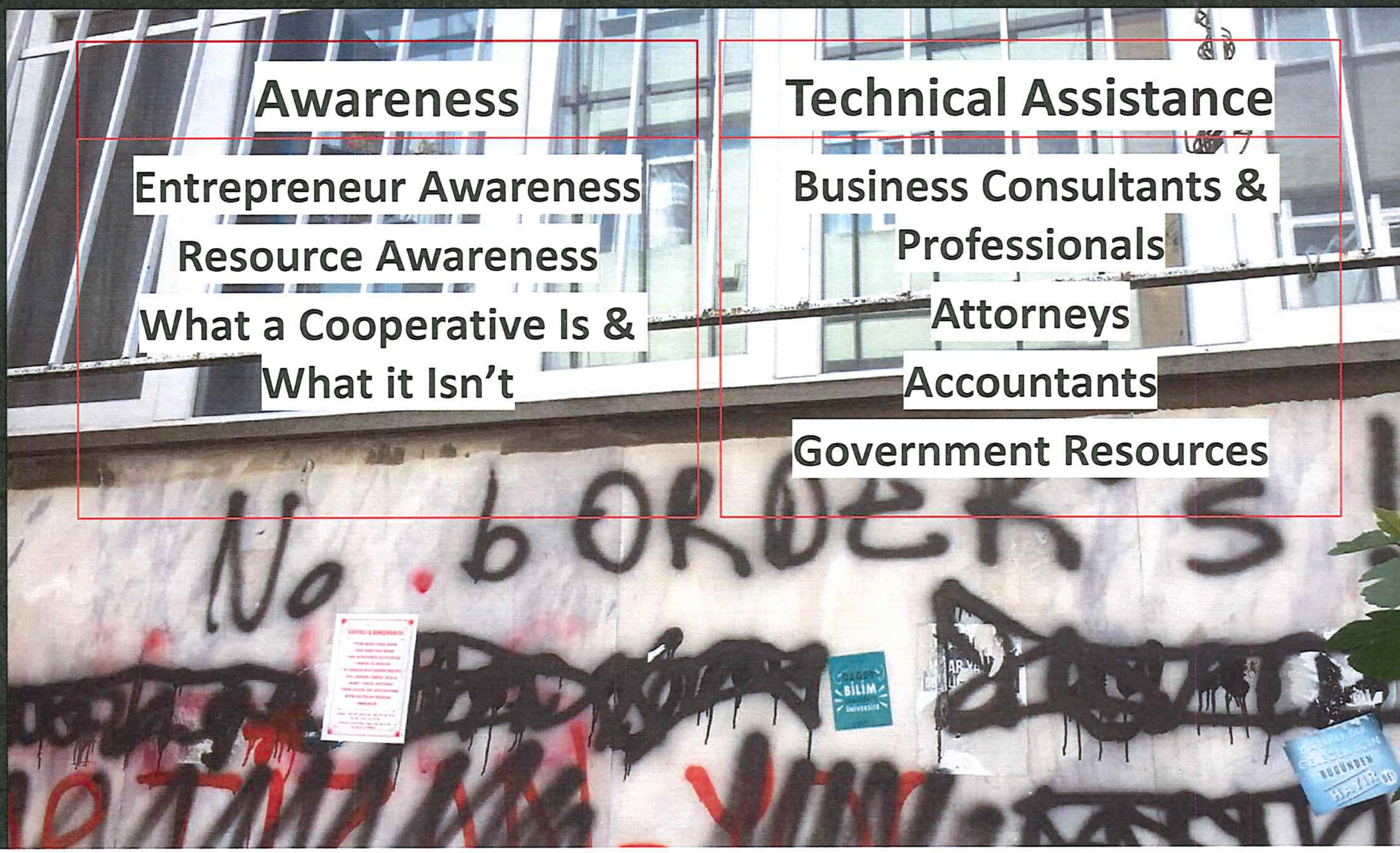
Why start a worker coop?

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

Common Barriers

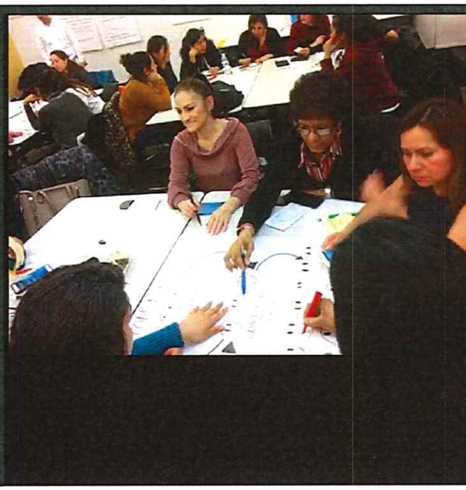


Awareness

- Entrepreneur Awareness
- Resource Awareness
- What a Cooperative Is & What it Isn't

Technical Assistance

- Business Consultants & Professionals
- Attorneys
- Accountants
- Government Resources



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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%

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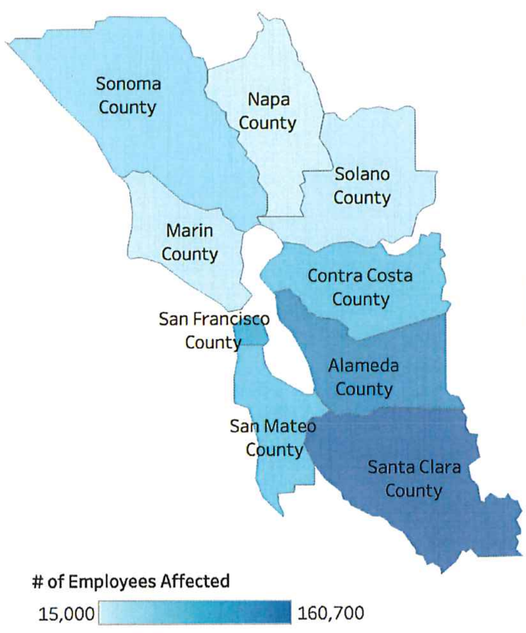
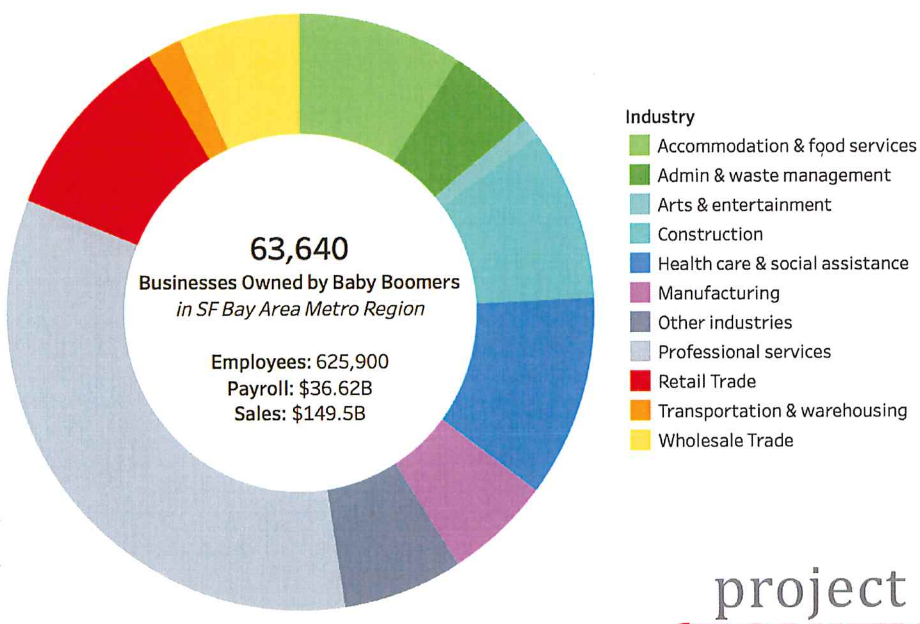
THE SMALL BUSINESS CLOSURE CRISIS

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





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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.

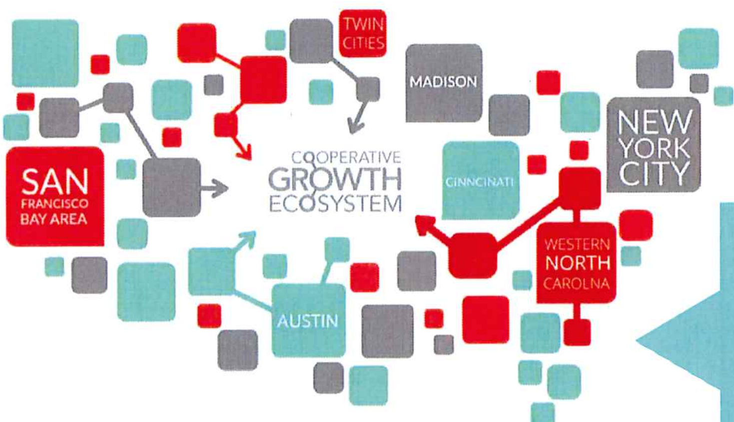
THE EMPLOYEE OWNERSHIP SOLUTION

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

BENEFITS TO BUSINESSES

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

PROJECT EQUITY HELPS COMMUNITIES RETAIN SMALL BUSINESSES



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

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

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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.

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

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!

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

POST MEETING MATERIAL

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

2. ASSESS

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

3. PREPARE

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

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.

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