1407 (Becker): California Employee Ownership Act

IN BRIEF

Employee-owned businesses, commonly formed as Employee Stock Ownership Plans (ESOPs) or Worker Cooperatives (co-ops), provide proven benefits to businesses, workers, and society. These include stronger business performance, quality jobs and wealth building opportunities for employees, and stronger local economies.

SB 1407 will establish a dedicated hub within the Governor's Office of Business and Economic Development (Go-Biz) that will help educate stakeholders about employee ownership, assist business owners and workers in navigating available resources, provide funding for technical assistance, and streamline and reduce barriers to the existing business transition process.

BACKGROUND

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. Baby boomers own approximately 359,000 businesses in California, which employ 3.9 million people (Project Equity). With 85% of business owners lacking succession plans, many of these companies will close altogether or sell to non-local buyers who are likely to relocate or cut jobs.

Broad-based employee ownership, primarily in ESOPs and worker co-ops, is an effective and bipartisan strategy to help create a more inclusive and resilient economy. Research shows that employee-owned companies generate 2.5% more jobs per year than would have been expected absent employee ownership and lay people off at far lower rates. They also provide quality jobs, a voice in the workplace, and for ESOPs, roughly three times the retirement assets as comparable non-ESOP companies. ESOP retirement benefits are provided far more equitably in terms of race, gender, and economic status than other retirement plans (National Center for Employee Ownership).

Along with closing racial and gender wealth gaps, broad-based employee ownership increases worker's economic stability, reduces the risk of valuable enterprises closing, and saves government funds by retaining jobs even during economic downturns (Employee Ownership Foundation/Rutgers University). Employee ownership transitions also have significant tax benefits and allow sellers to retain the legacy they have built and reward those who helped build the company. Unfortunately, few advisors, lenders, state/local agencies, and business owners are familiar with employee ownership.

Across the country and in California, local governments have taken bold action by supporting employee ownership initiatives: including Berkeley, Fremont, Long Beach, Los Angeles (city and county), San Francisco, and Santa Clara. And states including Colorado, Massachusetts, Iowa and others are embracing employee ownership. With more employee-owned companies than any other state, California should take action to advance this win-win business model through SB 1407.

SOLUTION

SB 1407 will increase resources for and reduce barriers to these innovative worker-led models by:

- Establishing the Employee Ownership Program within GO-Biz, with a designated program manager, to support and align the work of various state agencies in support of broad-based employee ownership.
- Establishing a Employee Ownership Outreach and Technical Assistance Grant program to increase awareness and technical assistance for employee ownership transitions, and an Employee Ownership Feasibility Assessment Grant program to partially subsidize the cost of feasibility assessments for conversion to employee ownership.
- Streamlining existing funding mechanisms to affirm that employee ownership transitions are an eligible use of funds.

SUPPORT

Ownership America, Co-Sponsor
Worker-Owned Recovery California (WORC) Coalition, Co-Sponsor
Project Equity, Co-Sponsor
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FOR MORE INFORMATION

Garrett Jensen, MPP, MA Ed
(503) 806-1108 |garrett.jensen@sen.ca.gov