

Co-op Corner: Employee Ownership Act

By Erbin Crowell

In August, the Main Street Employee Ownership Act was passed into law — a rare example of bipartisan collaboration at a time of great contention in DC, and a victory for worker ownership and co-operative enterprise in general.

Introduced by Senator Kirsten Gillibrand (D-NY) and Representative Nydia Velasquez (D-NY), this legislation comes at a key moment in the evolution of small business in the United States. Baby Boomers own nearly half of the privately-held businesses in our country, providing employment for 1 in 6 workers. And as these small business owners retire, a “Silver Tsunami” will put these companies and the jobs they provide at risk. Only a small percentage of these enterprises will be passed on to family members or sold to other buyers.

“This legislation fills an important gap,” said Rep. Velasquez, “allowing many of these firms to transition to an employee-owned structure, keeping the businesses intact and retaining jobs in the local community.”

This law seeks to transform the challenge of succession into an opportunity, providing a path to retirement for business owners and creating an ownership stake for employees through Worker Co-ops and Employee Stock

Ownership Programs (ESOPs). Specifically, the Act directs the Small Business Administration (SBA) to provide lending and technical training, executive education, and one-on-one consulting for entrepreneurs considering a transition to employee ownership.

As community-owned enterprises, food co-ops are dedicated to building stronger local economies and the Neighboring Food Co-op Association (NFCA) was an early advocate of this legislation. If implemented effectively, it will not only help expand employee ownership; It will also open the way for other co-operatives to work with the SBA to grow good jobs and community wealth. For example, the Act notes that “it is the sense of Congress that co-operatives have a unique business structure and are unable to access the lending programs of the [SBA] effectively due to loan guarantee requirements.” Specifically, the requirement of personal guarantees has disqualified co-ops from lending due to the fact that they typically have large numbers of members who each own small shares in the business. This means that co-ops may finally be able to access to support already available to other small businesses. As a remedy, the Act calls on the SBA to “recommend practical alternatives for co-operatives that will satisfy the loan guarantee requirements of the Administration.”

“One of the biggest challenges for food co-ops is the inability to access the SBA loan programs,” said R.L. Condra, Vice President of Advocacy of the National Cooperative Bank (NCB). “With this monumental legislation, Congress is directing the SBA to level the playing field for co-operative businesses.”

Addressing this and other issues related to a lack of awareness of the unique nature of co-operative enterprise will be key to the successful implementation of this legislation. For example, the SBA, lenders, and local technical assistance providers will need to be educated regarding the difference between co-ops and other models of employee ownership such as ESOPs. This is where language in the legislation related to legal statutes and regulations is very important.

While co-ops and ESOPs are both effective mechanisms for employee ownership, and ESOPs are more common than worker co-ops, they are distinct in important ways. A co-operative is a business that is owned and democratically controlled by the people who use it to meet their needs, whether they be

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products, services, and/or employment, as opposed to investors or outside organizations. These user-owners are called "members" because their eligibility for ownership is linked to their participation in the business, not simply the ownership of shares. In keeping with this principle, profits (or 'surplus' in a co-op) are distributed equitably among members on the basis of their use of the business. In a worker

co-op, this usually means the hours that a member has worked in a given year, meaning that profits are shared among members based on their labor, not how much wealth they already have. For these reasons, it is important that the Act defines co-ops "in accordance with applicable Federal and State laws and regulations" that include provisions related to member ownership, governance, and how wealth is distributed among members.

Significantly, the Act refers to co-operatives in general, which includes co-ops in which employees can be members along with other stakeholders such as consumers. For example, the member co-ops of the Neighboring Food Co-op Association (NFCA) employ 2,300 people across New England and New York State. These employees also have access to member-ownership in their co-ops, helping to secure good local jobs, infrastructure, and economic activity and participating in election of the Board of Directors.

Finally, the Act calls on the SBA to establish a Small Business Employee Ownership and Co-operatives Promotion Program to offer technical assistance and training on the transition to employee ownership in coordination with co-op development centers and "local, regional, and national co-operative associations." This means that co-ops themselves can contribute to implementation of the Act through regional

federations such as the NFCA and the Valley Alliance of Worker Co-ops, and national organizations such as the US Federation of Worker Co-ops and the National Cooperative Business Association (NCBA CLUSA).

"We're particularly pleased that the act requires SBA to coordinate with co-operative associations and development centers, which are natural partners in efforts to create better jobs and a fairer economy," said Doug O'Brien, President and CEO of NCBA CLUSA.

While this law is focused on the potential of worker ownership in addressing the challenge of business succession and retaining vital economic infrastructure, we

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EDUCATION & BUSINESS

Employee Ownership

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know that this a strength shared by co-operatives across sectors. Here in our region, we have seen co-ops used as a successful model for ownership succession with examples including worker co-ops Real Pickles in Greenfield, MA, and community-owned co-ops like Old Creamery Co-op in rural Cummington, MA. With this legislation, there is the potential for additional resources and support for similar conversions that will help retain jobs and community infrastructure, and build a more inclusive economy for everyone.

The successful passage of the Main Street Employee Ownership Act is not just a victory for worker co-ops. It also opens the way for recognition of the contribution of co-operatives of all kinds to local economies, and the removal of obstacles that prevent them from taking advantage of SBA loans and services available to other businesses. Whether we are talking about worker co-ops or food co-ops, credit unions or farmer co-ops, housing co-ops or artisan co-ops, we know that co-operative enterprises help build stronger communities.

You can help ensure that this law is implemented in a way that will enable worker co-ops — and co-operatives of all kinds — to grow, creating good jobs and building a more sustainable, resilient, and inclusive economy that works for everyone. Contact your members of Congress



Real Pickles Staff

and tell them how your local co-op has contributed to your community. Ask them to call on the SBA to immediately implement the Main Street Employee Ownership Act and replace the personal guarantee requirement for co-ops with a practical alternative. For more information, visit www.nfca.coop/ACTION.

Erbin Crowell is Executive Director of the Neighboring Food Co-op Association, serves on the Board of Directors of NCBA CLUSA, and is an adjunct lecturer at UMASS Amherst where he teaches courses on the co-operative movement. He may be contacted at erbin@nfca.coop.



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- Dorchester Food Co-op, Dorchester (Start-Up)
- Green Fields Market, Franklin Community Co-op, Greenfield
- Leverett Village Food Co-op, Leverett
- McCusker's Market, Franklin Community Co-op, Shelburne Falls
- Merrimack Valley Food Co-op, Haverhill (Start-Up)
- Old Creamery Co-op, Cummington
- Quabbin Harvest Food Co-op, Orange
- River Valley Co-op, Northampton
- Wild Oats Co-op Market, Williamstown

NEW HAMPSHIRE

- Androscoggin Food Co-op, Berlin (Start-Up)
- Co-op Food Stores, Hanover
- Co-op Food Stores, Lebanon
- Great River Food Co-op, Walpole (Start-Up)
- Littleton Food Co-op, Littleton
- Monadnock Food Co-op, Keene
- Souhegan Valley Food Co-op, Milford (Start-Up)

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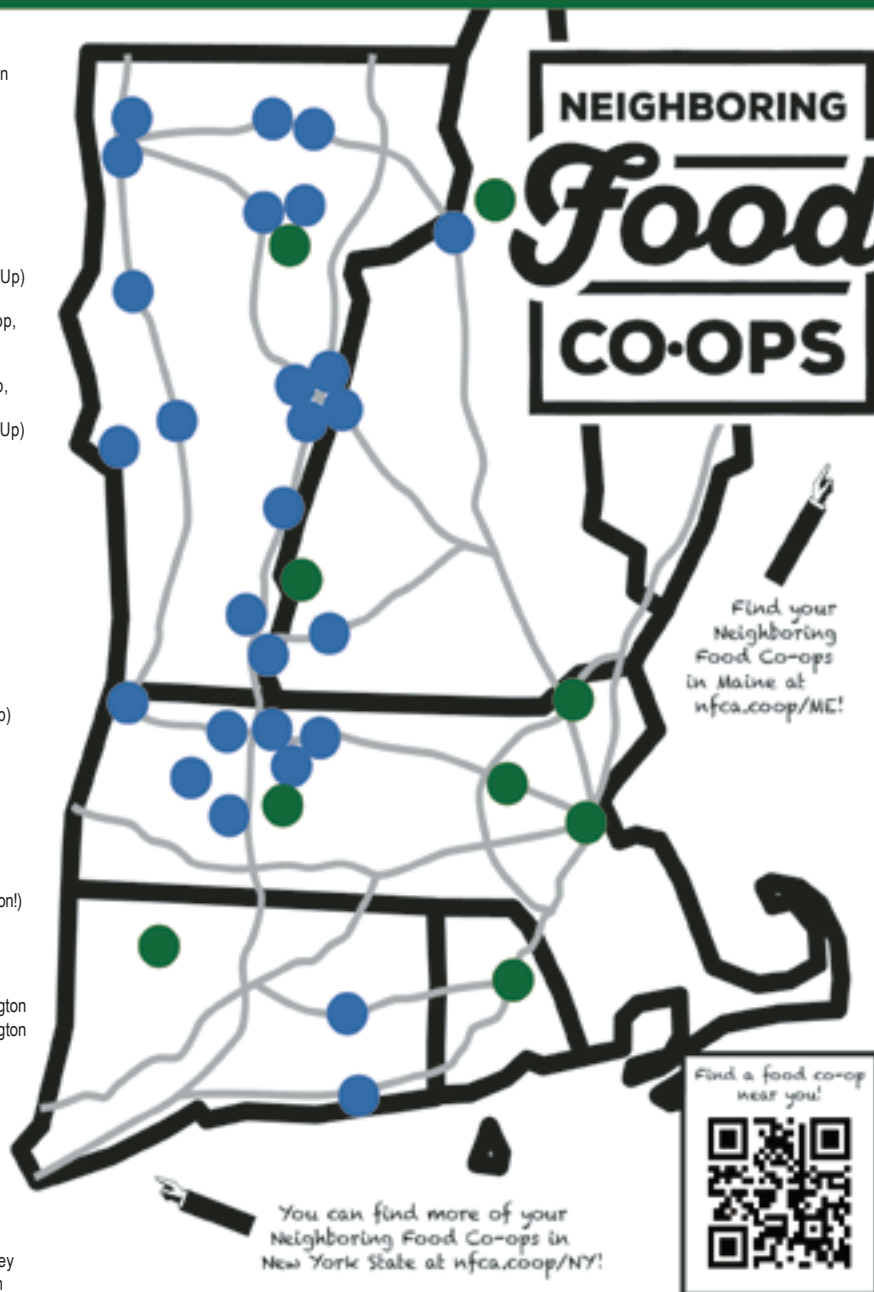
- Electric City Food Co-op, Milford (Start-Up)
- Flatbush Food Co-op, Brooklyn
- High Falls Food Co-op, High Falls
- GreenStar Co-op Markets, Ithaca

RHODE ISLAND

- Urban Greens Food Co-op, Providence (Opening Soon!)

VERMONT

- Brattleboro Food Co-op, Brattleboro
- Buffalo Mountain Food Co-op, Hardwick
- City Market, Onion River Co-op, Downtown Burlington
- City Market, Onion River Co-op, South End Burlington
- Co-op Food Stores, White River Junction
- Granite City Co-op Grocery, Barre (Start-Up)
- Hunger Mountain Co-op, Montpelier
- Middlebury Natural Foods Co-op, Middlebury
- Morrisville Food Co-op, Morrisville
- Plainfield Food Co-op, Plainfield
- Putney Food Co-op, Putney
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- Springfield Food Co-op, Springfield
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