
**Innovation, Community & Economic
Development, & Veterans Committee**

HB 1743

Brief Description: Concerning employee ownership.

Sponsors: Representatives Doglio, Volz, Schmidt, Reed, Walen, Ormsby and Pollet.

Brief Summary of Bill

- Creates the Washington Employee Ownership Program (Program) at the Department of Commerce to support efforts of businesses considering a sale to an employee structure.
- Establishes the Washington Employee Ownership Commission to oversee the Program.
- Provides a business and occupation tax credit for costs related to converting a qualifying business to an employee ownership structure.

Hearing Date: 2/10/23

Staff: Cassie Jones (786-7303).

Background:

Employee ownership refers to the arrangement where no one person has the most shares or control over an organization. The most common form of employee ownership in the United States is the employee stock ownership plan (ESOP), a structure that provides tax benefits in return for sharing ownership with employees. The ESOPs are recognized under federal tax law as a qualified defined contribution retirement plan. Other types of employee ownership include employee ownership trusts, where a business is owned or partially owned by a perpetual trust from which employees may receive certain financial benefits and governance rights, and

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cooperatives, which are member-owned business entities in which worker-owners have a controlling interest.

Summary of Bill:

Washington Employee Ownership Program.

The Washington Employee Ownership Program (Program) is created to support efforts of businesses considering a sale to an employee ownership structure. The Program is administered by Department of Commerce (Commerce) and overseen by the Washington Employee Ownership Commission (Commission).

In implementing the program, Commerce must:

- create a network of technical support and service providers for businesses considering employee ownership structures;
- work with state agencies whose regulations and programs affect employee-owned businesses, and businesses with the potential to become employee owned, to enhance opportunities and reduce barriers;
- partner with relevant private, nonprofit, and public organizations including, but not limited to, professional and trade associations, financial institutions, unions, small business development centers, economic and workforce development organizations, and nonprofit entities to promote employee ownership benefits and succession models;
- develop and make available materials regarding employee ownership benefits and succession models;
- provide a referral service to help qualified business owners find appropriate legal, financial, and technical employee ownership resources and services;
- work with the Department of Financial Institutions and appropriate state, private, and nonprofit entities to shape and implement guidance on lending to broad-based employee ownership vehicles;
- create an inventory of employee-owned businesses in the state including employee stock ownership plans, worker cooperatives, and employee ownership trusts; and
- establish a revolving loan program to assist existing small businesses to finance a transition to employee ownership.

Subject to an award of federal funding for this purpose, Commerce must establish within the Program a revolving loan program to assist existing small businesses to finance a transition to employee ownership. Loans offered by the revolving loan program must be used to facilitate the purchase of an interest in an employee stock ownership plan or worker-owned cooperative from the owner or owners of a qualified business.

By December 1 each year, Commerce must submit a report to the appropriate committees of the Legislature on Program activities and the number of employee-owned businesses and employee-owned trusts in the state, including recommendations for improvement and barriers for businesses considering employee ownership structures in Washington state. The first report must include rules and guidelines for the administration of the Program, as established by the

Commission.

Program support is only available to businesses headquartered in Washington, meaning that Washington is a business's principal place of business or where it is incorporated.

Washington Employee Ownership Commission.

The Commission is created to develop and supervise the Program. The Commission shall consist of the following eleven members:

- one member from each of the two major caucuses of the House of Representatives, appointed by the Speaker of the House;
- one member from each of the two major caucuses of the Senate, appointed by the President of the Senate; and
- seven of the following members appointed by the Governor:
 1. one representative of a small business using an employee ownership structure, with an initial four-year term;
 2. one representative of a large business using an employee ownership structure, with an initial four-year term;
 3. one representative of a statewide business association, with an initial two-year term;
 4. one economic development expert from the private sector, with an initial four-year term;
 5. one representative from a financial institution with expertise in transitions to employee ownership, with an initial two-year term;
 6. one economic development expert from the public sector, with an initial four-year term; and
 7. one representative from Commerce, with an initial four-year term.

The Commerce representative shall chair the first meeting, until a chair is elected. All gubernatorial appointments must first be nominated from recognized organizations that represent the entities or interests identified. After initial appointments, all members shall serve four-year terms and hold office until successors are appointed.

The Commission shall develop, in consultation with Commerce, the rules and guidelines for the administration of the Program.

Business and Occupations Tax Credit.

Beginning July 1, 2024, a business and occupation tax credit for costs related to converting a qualifying business to a worker-owned cooperative, employee ownership trust, or an employee stock ownership plan is established. The total amount of credits may not exceed \$2 million per year and are available on a first-in-time basis. Unused credit may be carried over up to 12 months from the end of the tax reporting period in which the credit was earned.

Qualified businesses may receive up to:

- 50 percent of the conversion costs, not to exceed \$25,000, for converting to a worker-

- owner cooperative or an employee ownership trust; or
- 50 percent of the conversion costs, not to exceed \$100,000, for converting to an employee stock ownership plan.

A tax preference performance statement is included. The Legislature's specific public policy objective is to encourage business owners to create an employee ownership plan or employee ownership trust or convert to a worker-owner cooperative that allows the company to share ownership with their employees without requiring employees to invest their own money. If the review finds that the number of employee ownership structures has increased because of the tax credit, then the Legislature intends for the Joint Legislative Audit and Review Committee to recommend extending the expiration date of the tax preference.

Appropriation: None.

Fiscal Note: Requested on February 3, 2023.

Effective Date: The bill contains multiple effective dates.