

HOUSE BILL REPORT

HB 1743

As Reported by House Committee On:

Innovation, Community & Economic Development, & Veterans

Title: An act relating to expanding employee ownership.

Brief Description: Concerning employee ownership.

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

Brief History:

Committee Activity:

Innovation, Community & Economic Development, & Veterans: 2/10/23, 2/15/23 [DPS].

Brief Summary of Substitute 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.

HOUSE COMMITTEE ON INNOVATION, COMMUNITY & ECONOMIC DEVELOPMENT, & VETERANS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Ryu, Chair; Donaghy, Vice Chair; Rule, Vice Chair; Volz, Ranking Minority Member; Barnard, Assistant Ranking Minority Member; Chambers, Christian, Corry, Cortes, Paul, Senn, Shavers, Street, Waters and Ybarra.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

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

Summary of Substitute 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 of 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. 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 11 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:
 - one representative of a worker cooperative business, with an initial four-year term;
 - one representative of an employee stock ownership plan business, with an initial four-year term;
 - one representative of a statewide business association, with an initial two-year term;
 - one economic development expert from the private sector, with an initial four-year term;
 - one representative from a financial institution with expertise in transitions to employee ownership, with an initial two-year term;
 - one economic development expert from the public sector, with an initial four-year term; and
 - 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 Occupation 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.

Substitute Bill Compared to Original Bill:

The substitute bill makes the following changes to the original bill:

- It modifies the membership of the Washington Employee Ownership Commission by: (1) including one member representing a worker cooperative business instead of a small business utilizing employee ownership structures; and (2) including one member representing an employee stock ownership plan business instead of a large business utilizing employee ownership structures.
- It provides that the definition of "worker-owned cooperative," for purposes of the business and occupation tax credit provisions, has the same meaning as the federal definition in effect as of the effective date of the provisions, or subsequent dates as provided by administrative rule.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains multiple effective dates. Please see the bill.

Staff Summary of Public Testimony:

(In support) This bill removes important barriers to employee ownership, including access to capital and access to professional and technical services. In Washington, infrastructure already exists in the field to do this work. The bill ties in with recent developments that have occurred nationally, including federal legislation and policy. This bill will put Washington in a good position to take advantage of federal programs.

This bill is modeled after similar bipartisan bills that have passed in other states. It significantly increases opportunities for employees to buy businesses from their employers through the use of tax incentives and technical support. There is a lot of data regarding the aging of business owners and this bill will help workers buy a business and become a worker-owned business. There are lots of benefits to employee ownership. Some businesses operate better when more people have a stake in the business. These businesses survive longer, are less likely to lay off workers, and provide great employee benefits such as higher pay.

Worker cooperatives provide a viable succession path for small businesses when their owners are ready to retire. Becoming a worker cooperative may be the best option to preserve and grow jobs at a business. One of the biggest obstacles is raising money to buy the business. Most banks do not understand the cooperative model and want personal guarantees for funding. This is a big risk and a hardship for workers. The tax credits and loan provisions in the bill can go a long way toward helping small businesses form cooperatives. The low number of employee-owned businesses is caused by lack of awareness, capital, and state-level incentives and technical assistance. This bill addresses all three of these roadblocks. Employee ownership can help bridge the wealth gap and preserve legacy businesses.

(Opposed) None.

Persons Testifying: Representative Beth Doglio, prime sponsor; Steve Storkan, Employee Ownership Expansion Network; John McNamara, Northwest Cooperative Development Center; Hilary Abell, Project Equity; Patrick McGrath, Working Systems Cooperative; Aaliyah Nedd, National Cooperative Business Association; and Mauri Ingram, Whatcom Community Foundation.

Persons Signed In To Testify But Not Testifying: None.