

FINAL BILL REPORT

SSB 5096

C 392 L 23
Synopsis as Enacted

Brief Description: Concerning employee ownership.

Sponsors: Senate Committee on Business, Financial Services, Gaming & Trade (originally sponsored by Senators Padden, Pedersen, Hasegawa and Schoesler).

Senate Committee on Business, Financial Services, Gaming & Trade

Senate Committee on Ways & Means

House Committee on Innovation, Community & Economic Development, & Veterans

House Committee on Appropriations

Background: Employee Ownership Structures. Employee ownership refers to the arrangement where no one person has the most shares or control over an organization. Some of the most common forms of employee ownership include Employee Stock Ownership Plans (ESOPs), Employee Ownership Trusts (EOTs), and Cooperatives (Co-ops).

Employee Stock Ownership Plans. ESOPs are recognized under federal tax law as a qualified defined contribution retirement plan. An ESOP must be designed to invest primarily in qualifying employer securities and meet certain other requirements. The IRS and United States Department of Labor share jurisdiction over some ESOP features.

Employee Ownership Trusts. EOTs are not recognized as a retirement plan under federal law. An EOT is a perpetual trust, in which employees may receive certain financial benefits and governance rights.

Cooperatives. Co-ops are member-owned business entities in which worker-owners have a controlling interest, and who elect the governing body on a one-member-one-vote basis.

Summary: Washington Employee Ownership Program. The Washington Employee Ownership Program (program) is created to support efforts of businesses considering sale to an employee ownership structure. The program is administered within the Department of

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.

Commerce (Commerce) and overseen by the Washington Employee Ownership Commission (Commission).

The program must offer technical support, and other services, to certain qualified businesses considering certain employee ownership structures. To receive program support, a business must be headquartered in Washington State. The program must also create an inventory of certain employee-owned businesses in this state.

Subject to the successful award of federal funding for this specific purpose, the program must establish a revolving loan program to assist existing small businesses in financing a transition to employee ownership. Certain requirements regarding who can receive the loan and what the loan may be used for are established.

Commerce must report to the Legislature on the program by December 1st each year on the number of employee-owned businesses and employee-owned trusts in the state and include recommendations for improvement and barriers for businesses considering employee ownership structures. The first report must include the rules and guidelines for the administration of the program, developed by the Commission.

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 worker cooperative business, with an initial four-year term;
 2. one representative of an ESOP business, 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 knowledge and experience in employee ownership, 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. Among other responsibilities related to assisting businesses considering employee ownership, the Commission must conduct market research for applying to future federal funding.

Business and Occupations Tax Credit. Beginning July 1, 2024, a business and occupation tax credit for costs related to converting a qualifying business to an employee ownership structure 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, to a worker-owner cooperative or an employee ownership trust; or
- 50 percent of the conversion costs, not to exceed \$100,000, to an ESOP.

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. If the review finds the number of employee ownership structures has increased, then the Legislature intends for the Joint Legislative Audit and Review Committee to recommend extending the expiration date of the tax preference.

Votes on Final Passage:

Senate	49	0	
House	96	0	(House amended)
Senate	48	0	(Senate concurred)

Effective: July 23, 2023
July 1, 2024 (Sections 4 and 5)