

# HOUSE BILL REPORT

## SSB 5096

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### As Passed House - Amended:

April 17, 2023

**Title:** An act relating to expanding employee ownership.

**Brief Description:** Concerning employee ownership.

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

### Brief History:

#### Committee Activity:

Innovation, Community & Economic Development, & Veterans: 3/14/23, 3/17/23 [DPA];

Appropriations: 3/31/23, 4/3/23 [DPA(ICEV)].

#### Floor Activity:

Passed House: 4/17/23, 96-0.

### Brief Summary of Substitute Bill (As Amended by House)

- 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.

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

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*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.*

**Majority Report:** Do pass as amended. 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.

**Staff:** Cassie Jones (786-7303).

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** Do pass as amended by Committee on Innovation, Community & Economic Development, & Veterans. Signed by 28 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Stokesbary, Ranking Minority Member; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; Berg, Chopp, Connors, Davis, Dye, Fitzgibbon, Harris, Lekanoff, Pollet, Riccelli, Rude, Ryu, Sandlin, Schmick, Senn, Simmons, Slatter, Springer, Steele, Stonier and Tharinger.

**Staff:** Jessica Van Horne (786-7288).

### **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 Amended 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 the 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 ESOPs, 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 ESOP 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 ESOP 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 ESOP 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 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 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:** Available.

**Effective Date:** The bill contains multiple effective dates. Please see the bill.

**Staff Summary of Public Testimony (Innovation, Community & Economic Development, & Veterans):**

(In support) Employee stock ownership plans and worker cooperatives give workers a chance at ownership in the company they work for. These are good arrangements for businesses with under 100 employees and those that are family-owned and without a family member to take over the business. Employee ownership presents a bipartisan opportunity to build a more inclusive, equitable economy. Studies have shown that expanding employee ownership increases wages, employee wealth, and job satisfaction and retention. It is also a proven economic development tool because the businesses stay locally owned. Many business owners will retire in Washington in the coming years. Sales of these businesses to employees could have a profound impact on employees and the local economy. This bill will put Washington in a good position to participate in federal funding opportunities that will be available as a result of recently enacted federal legislation.

The biggest barrier to employee ownership transitions is lack of awareness; the Commission created in the bill and the work it will do will help to raise awareness. The reporting requirements in the bill will also help in understanding the employee ownership landscape in Washington. Employee ownership is a critical tool for combating income inequality. This bill improves opportunities to grow economically for LGBTQ+ people. Many businesses owned by LGBTQ+ people have an organizational structure that focuses on supporting the community. Employee ownership provides an opportunity for business owners to sell their companies to trusted employees who can continue the legacy of the business. Employees have greater access to leadership opportunities in the company and access to greater wealth.

(Opposed) None.

**Staff Summary of Public Testimony (Appropriations):**

(In support) This bill will help grow employee-owned businesses and make businesses more inclusive, equitable, and resilient. Employee-owned businesses see an increase in worker wages and a reduction in layoffs. Adopting this model will help businesses grow and build a positive company culture, as workers share both the risks and rewards. Other states have taken measures to encourage businesses to transition to an employee-owned model as part of their economic development strategy. It is a great idea to follow other states. Washington-based companies should have access to resources to help them transition, especially as many businesses are owned by older individuals who will soon be retiring. This bill will help preserve high-quality jobs.

(Opposed) None.

**Persons Testifying (Innovation, Community & Economic Development, & Veterans):** Senator Mike Padden, prime sponsor; Jack Moriarty, Ownership America; Hilary Abell, Project Equity; John McNamara, Northwest Cooperative Development Center; Mitch Miller, GreatBanc Trust Company; Gabriel Neuman, Greater Seattle Business Association; Lewis McMurrin; and Bryan Ricker, Schweitzer Engineering Laboratories.

**Persons Testifying (Appropriations):** Jack Moriarty, Ownership America; and Bryan Ricker, Schweitzer Engineering Laboratories.

**Persons Signed In To Testify But Not Testifying (Innovation, Community & Economic Development, & Veterans):** None.

**Persons Signed In To Testify But Not Testifying (Appropriations):** None.