



Retaining Rural Business Through Employee Ownership

March 2-6, 2020



Center for Cooperatives
UNIVERSITY OF WISCONSIN-MADISON



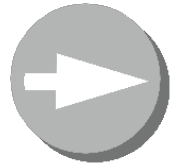
UNIVERSITY OF MINNESOTA
EXTENSION

CDS

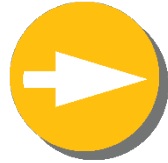
Cooperative Development Services
Where cooperation is at work, communities prosper.



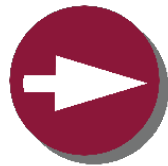
AGENDA



Welcome and introductions



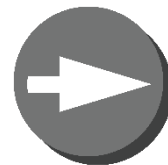
Potential for business transitions in WI and MN



The nuts and bolts of employee ownership



Steps in the conversion process



Resources and how to get involved

BUSINESS SUCCESSION ON THE HORIZON

- More businesses were founded by those born between 1946 and 1964 than any other generation.
- It is estimated that over half of U.S. companies with employees are owned by baby boomers.
- The oldest baby boomers turned 73 in 2019. **The wave of boomer retirements, and their business successions is here NOW.**



MOST BUSINESS OWNERS ARE NOT PLANNING FOR A FUTURE WITHOUT THEM IN IT

- Over 60% of small business owners say they do not have a viable succession plan.
- 7 in 10 business owners over 50 lack a succession plan.
- Most business owners do not “formally” plan for ownership transfers; in fact, it’s estimated that 85% of business owners have no exit strategy.



THE BOTTOM LINE

Approximately 110,000 Minnesota and Wisconsin businesses with employees are owned by people 55 years or older.

Lack of succession planning by these business owners will lead to **the loss or relocation of thousands of jobs and **instability** in local economies across the Upper Midwest.**

SMALL BUSINESS SUCCESSION OPTIONS

BUSINESS CONTINUES

Keep it in the family: Direct sale, gifting, or trusts

Sale to outside interest: Direct sale, jobs are maintained

Management buyout: Direct sale, may also be combined with an ESOP

Sale to employees: Most often in the form of an ESOP or worker co-op

BUSINESS CLOSES

Liquidation: Results in loss of jobs, services, and tax base

Sale to outside interest: New owner may consolidate operations and eliminate jobs

INTEREST AND INVESTMENT IN EMPLOYEE OWNERSHIP IS ON THE RISE

 Business Wire (press release)

Kendeda Fund Announces More Than \$24 Million In New ...

The Fund acquires businesses from retiring baby boomers, converts those businesses to worker ownership, and supports them as part of the ...

Aug 26, 2019



 CNNMoney

The government just made it easier for workers to own a piece ...

Previously known as the Main Street Employee Ownership Act, the ... Her goal: Help more workers to own a piece of the company they work for.

Aug 26, 2018

 Nonprofit Quarterly

Vermont Rides Rising Employee Ownership Wave - Non Profit News

"Vermont ranks third in the nation for the number of people working in companies with some form of worker ownership, including Employee ...

Jun 12, 2019




B Bloomberg

Retiring Boomers Turn to Co-Ops to Keep Their Businesses ...

Buying it as a group allowed them each to have ownership." ... The U.S. has about 800 worker-owned co-ops, up from 350 a decade ago, ...

3 weeks ago



 Harvard Business Review

Why the US Needs More Worker-Owned Companies

To encourage worker buyouts, more awareness-raising initiatives are required. The general understanding of how emerging hybrid ownership

Aug 8, 2018

 PostBulletin.com

Seeking a more worker-friendly economy, some states push ...

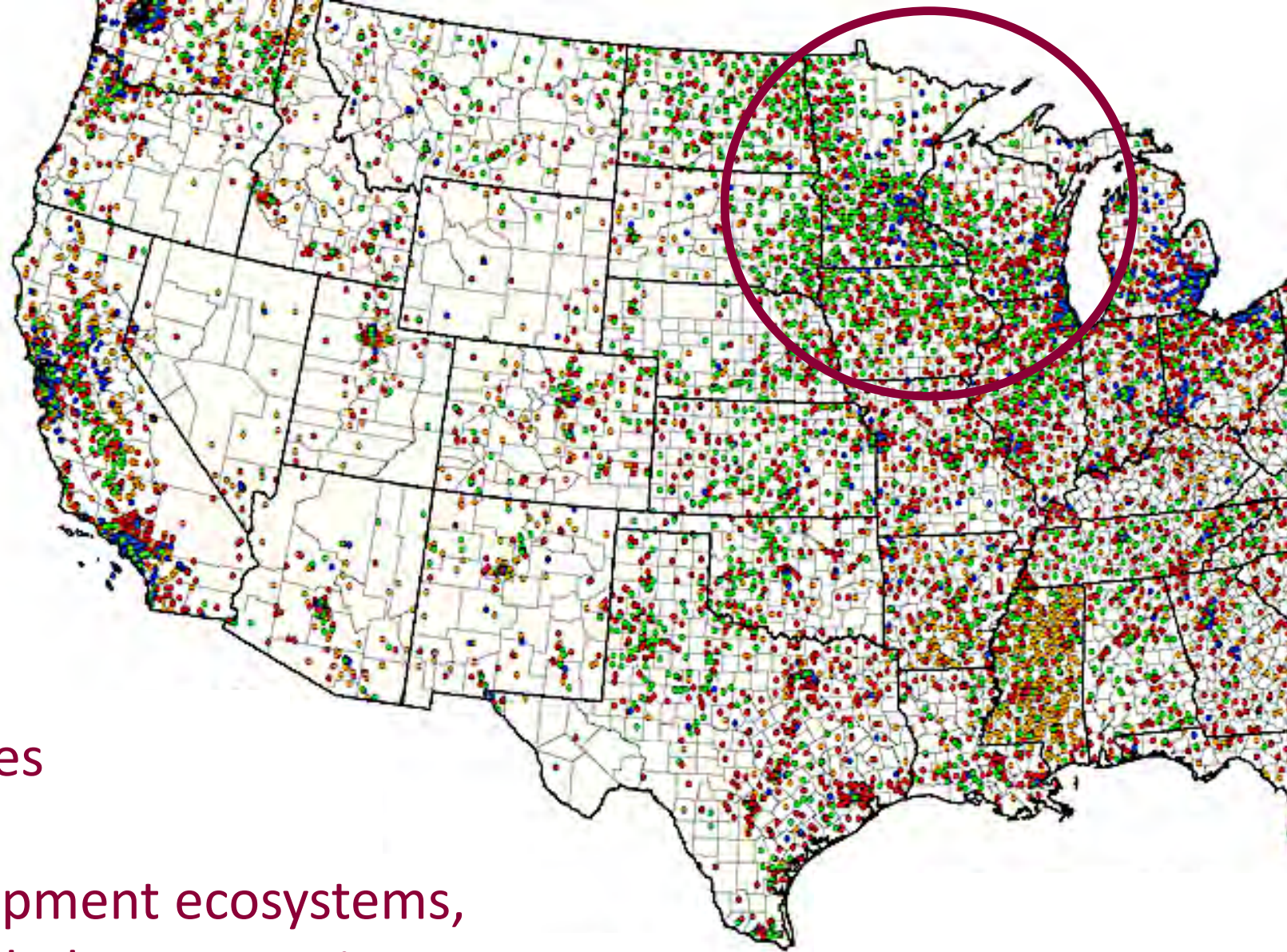
Employee ownership has a history of bipartisan support. ... In recent years, cities such as New York; Berkeley, Calif.; and Madison, Wis., also ...

2 weeks ago



MN AND WI
ARE WELL
POSITIONED
TO RIDE THIS
WAVE

- High density of cooperatives
- Rich cooperative history
- Robust cooperative development ecosystems, including municipality-funded programs in both states



BENEFITS OF EMPLOYEE OWNERSHIP

- Financially rewarding exit path with potential tax benefits for selling owner(s)
- A lasting legacy for the selling owner(s)
- Rewards employees for their role in building the business
- Has the potential to improve business performance and increase employee engagement, productivity, and retention
- Retains services, jobs, wealth, and tax base in the local community



1042 ROLLOVER

- A tax break for selling owners (established in 1984)
- Though available to both, it is more frequently used by ESOPs than by worker co-ops
- Selling business owner can **defer tax on capital gains** from the sale if they do the following:
 - Sell at least 30 percent of the business to employees via ESOP or worker co-op
 - Reinvest the proceeds into “qualified replacement properties” within 12 months of the sale



EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

- Federally governed benefit plan that can be used to share ownership with employees.
- When an ESOP is created, the business owner sells some or all of their shares to an ESOP trust that owns those shares on behalf of the employees.
- Many ESOPs have ownership cultures that encourage employees to think and act like owners.



EMPLOYEE OWNED



WHAT IS A COOPERATIVE?

A cooperative is a business that is **owned** and **democratically controlled** by the people who use its services.




TYPES OF COOPERATIVES



Consumer Co-ops



**Adams-Columbia
Electric Cooperative**

Your Touchstone Energy® Partner 

Producer Co-ops



Purchasing Co-ops



Worker Co-ops



Multi-stakeholder Co-ops

WHAT IS A WORKER COOPERATIVE?



- Workers **own** the business
- Workers democratically **control** the business
- Profits are **distributed** to workers in proportion to their labor contribution

Electric Violin is a worker co-op conversion in rural North Carolina.

	Worker Cooperatives	ESOPs
Ownership transfer	All at once	Transfer is often staged
Regulation of ownership transfer	Not heavily regulated, relatively inexpensive	Transfer and maintenance are expensive and highly regulated
Ownership & governance	Democratic ownership and governance	Employee ownership but not direct governance
Financial benefits for employees	Employees earn a wage and are allocated a share of annual profit	Stock appreciation at retirement
Appropriate business size	Typically appropriate for companies with fewer than 100 employees	Typically appropriate for companies with more than 50 employees due high set-up and maintenance costs
How rules are established	Co-op sets rules for membership, governance, and profit sharing	ESOP is a benefit program, law determines who is covered

HAPPY EARTH CLEANING CO-OP

- First employee owned cleaning co-op in Minnesota
- Founded in 2010, converted to worker co-op in 2019
- 20 employees, 5 founding worker-owners
- Selling owners exited the business, but not for retirement
- Technical assistance provided by Cooperative Development Services, Nexus Community Partners, and Project Equity. Financing provided by Shared Capital Cooperative.

ISLAND EMPLOYEE CO-OP

- Worker retail cooperative on Deer Isle in Maine
- Includes three stores selling groceries, hardware, variety goods, and gas. Operated by founders for 43 years, converted to worker co-op in 2014
- 60 employees, 40+ worker-owners
- Selling owners exited the business
- Technical assistance provided by Cooperative Development Institute. Deal financed by several debt and equity sources.

NORTHWIND SOLAR CO-OP

- Worker owned solar design and installation firm in central Wisconsin
- Founded in 2007 by four business partners, converted to worker co-op in 2017.
- Co-op launched with 6 worker-owners, has grown to 12 worker-owners since 2017.
- Selling owners stayed with the business.
- Technical assistance provided UW Center for Cooperatives. Deal was seller financed.



STEPS IN THE TRANSITION PROCESS



EXPLORE

Varies
\$0



ASSESS

3-6 months
\$5,000



STRUCTURE

6-12 months
\$10,000



COMPLETE

3-6 months
\$10,000



SUPPORT

Ongoing
Varies



EXPLORE: Key stakeholders decide if idea is worth pursuing.

Key questions

Is the business a good fit for the worker co-op model?

What are the basic legal and financial realities?

Processes

- Selling owner has initial consultation to understand their desires, concerns, and realities.
- The owner does background reading and learns from other companies that converted.
- A basic understanding of the transaction type and any special needs is formed.
- The owner makes a decision on whether to invest resources in moving forward.



ASSESS: Outside professionals affirm a sale is feasible.

Key questions

Is a transition financially and operationally feasible?

Is the current owner able to invest in the transition?

Processes

- The seller signs an agreement to assess the financial, legal, and organizational feasibility.
- A business valuation gives a foundation from which to negotiate the sale price, and seek capital.
- The best choice of legal entity is informed by the sector, the lender, and the seller's desires.
- The organization's personnel is assessed for ownership readiness, and gaps are identified.



STRUCTURE: Transition team determines sale terms and organizational changes

Key questions

Who will make conversion related decisions and how?

What is the timeline and what are the key deliverables for each party?

How will the transaction and the new cooperative be structured?

Processes

- A succession plan develops leadership and management from within.
- Transition team is convened to make preliminary decisions about the sale and new cooperative structure.
- The team works to secure loans, and establish support for member buy-in.
- The team drafts the documents needed for the transaction and new organization.



COMPLETE: Loans are drawn and the company legally changes hands.

Key questions

Are legal, financial, and operational changes ready?

Processes

- All employees vote to ratify the sale terms and any organizational changes.
- Documents are signed, loans are drawn, and ownership transferred.
- Transaction-timed changes in leadership and management from the succession plan take place.
- A founding board of directors is established to govern, often members of the transition team.



SUPPORT: Ongoing support for cultural and operational gaps

Key questions

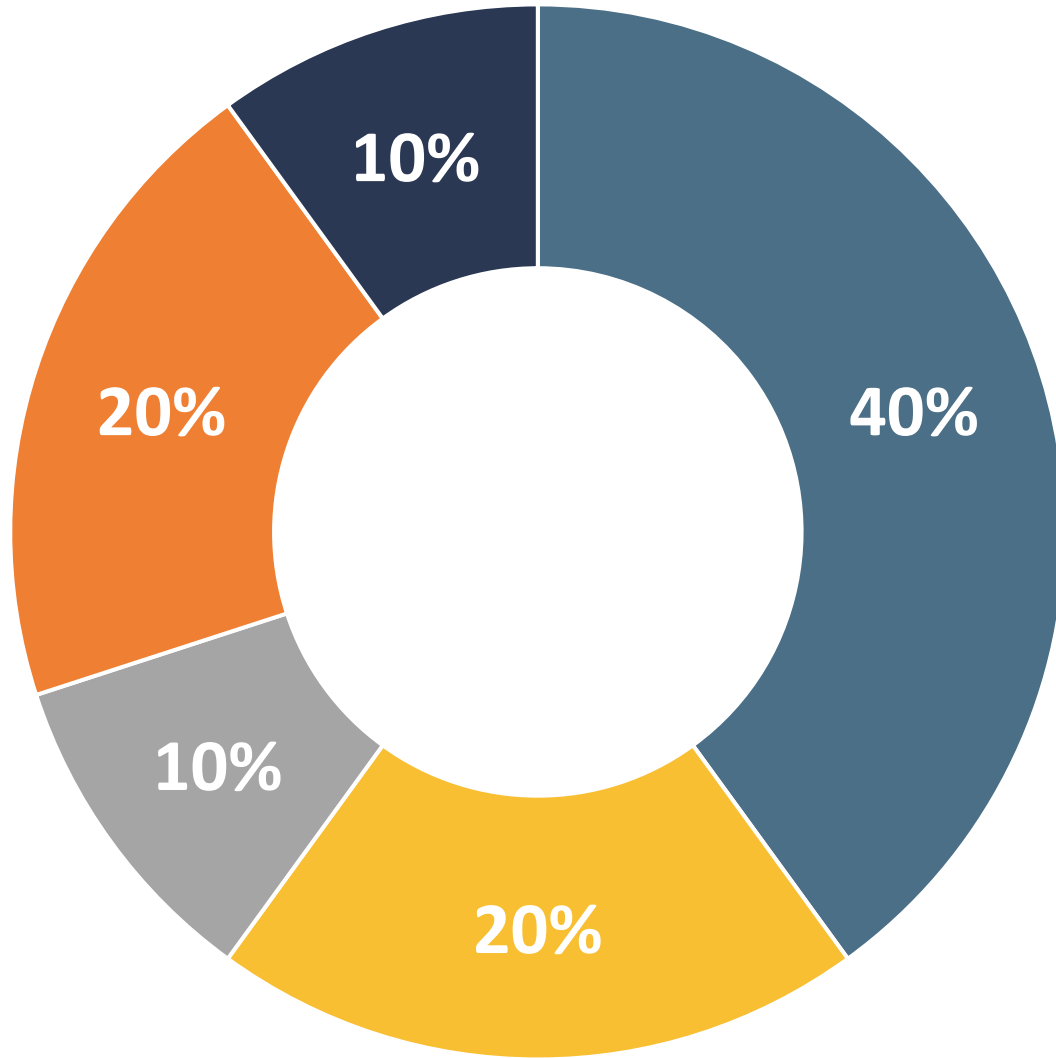
What is needed to develop further democratic ownership culture?

How will professional support be available when needed?

Processes

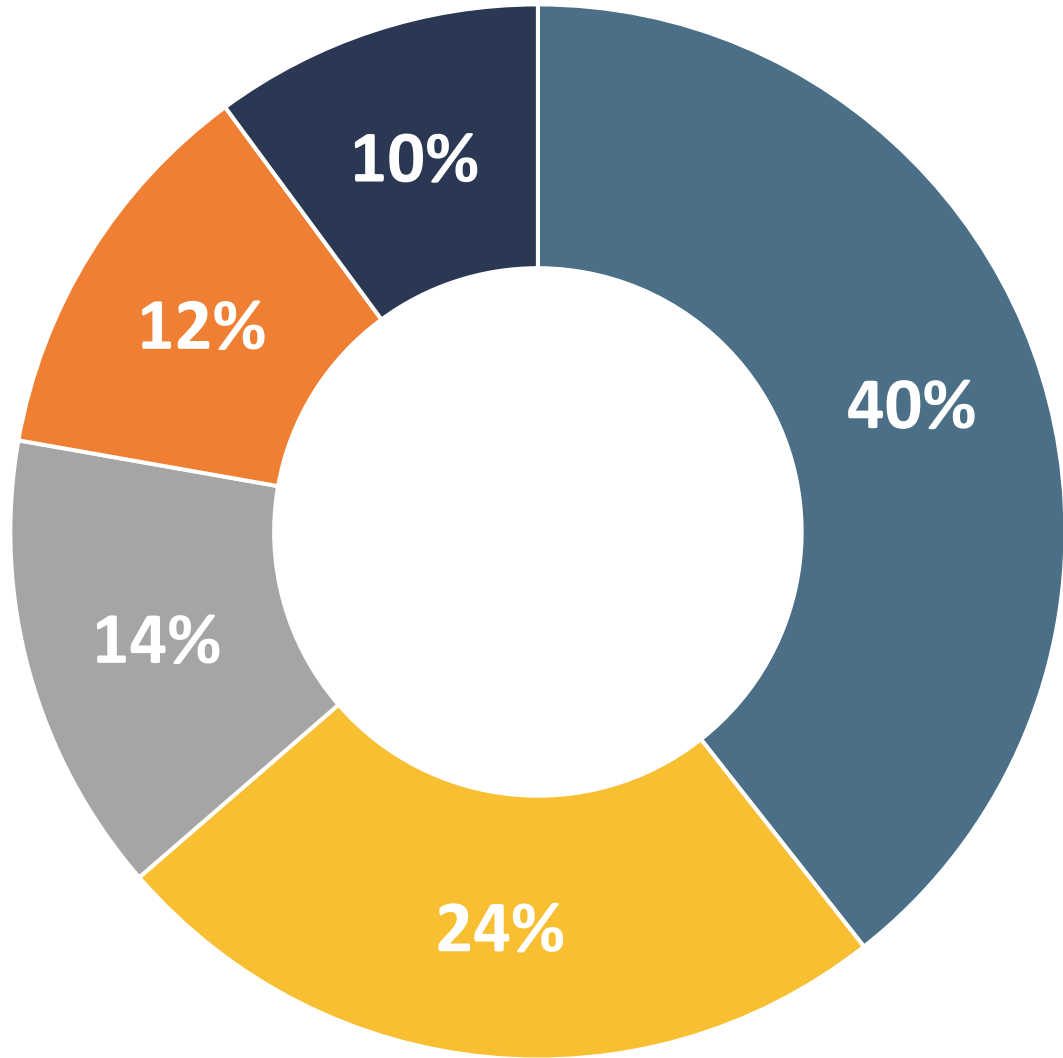
- A long-term plan for supporting an ownership culture is written and budgeted for.
- Open book management practices increase all employees' financial literacy.
- Industry-specific education helps employees understand strategic direction of the company.
- The pathway for employee-owners to enter and exit is clear as the business grows.

NEW SCHOOL OF MONTPELIER, \$315K



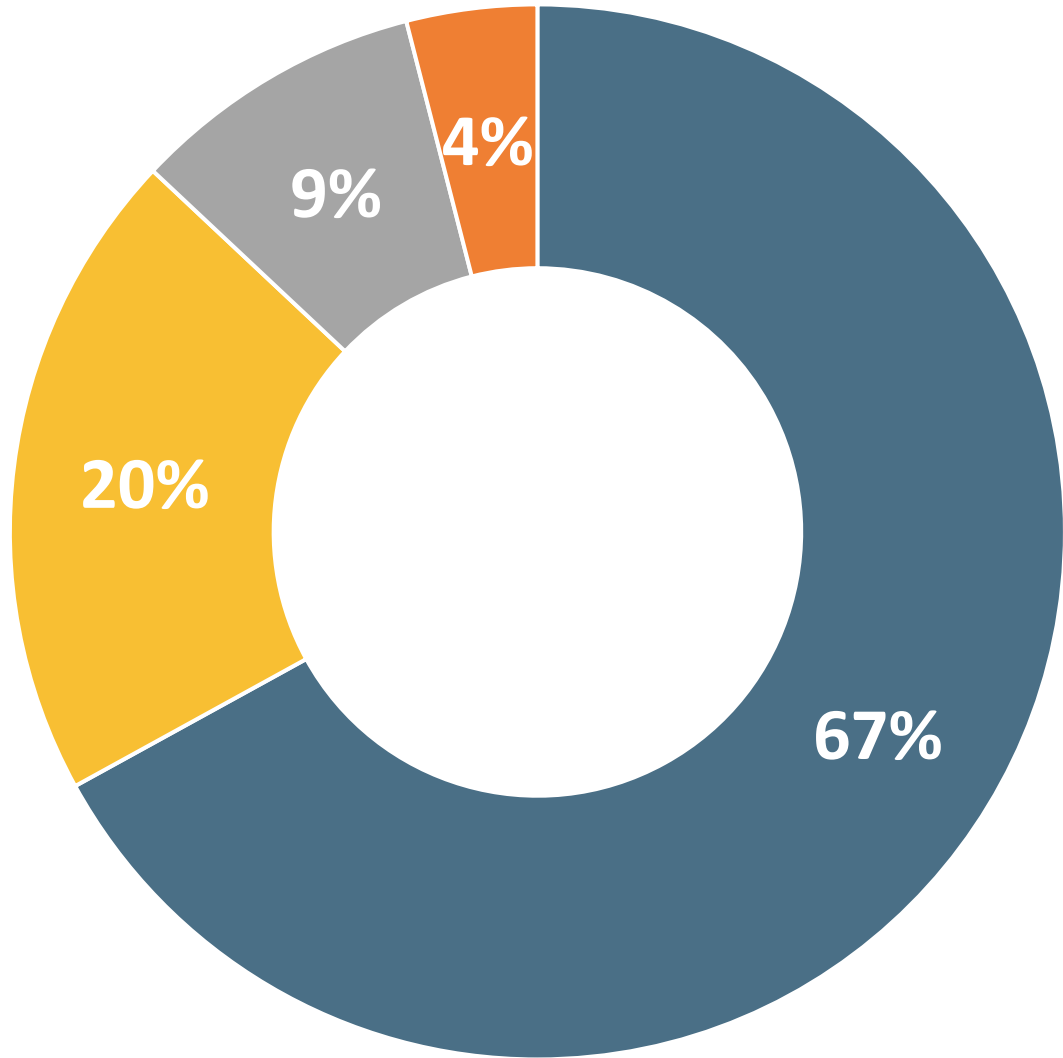
- Senior debt (CFNE)
- Senior debt (VEOC)
- Senior debt (VEDA)
- Subordinate debt (seller)
- Subordinate debt (Worker-owners)

A YARD & A HALF LANDSCAPING, \$635K



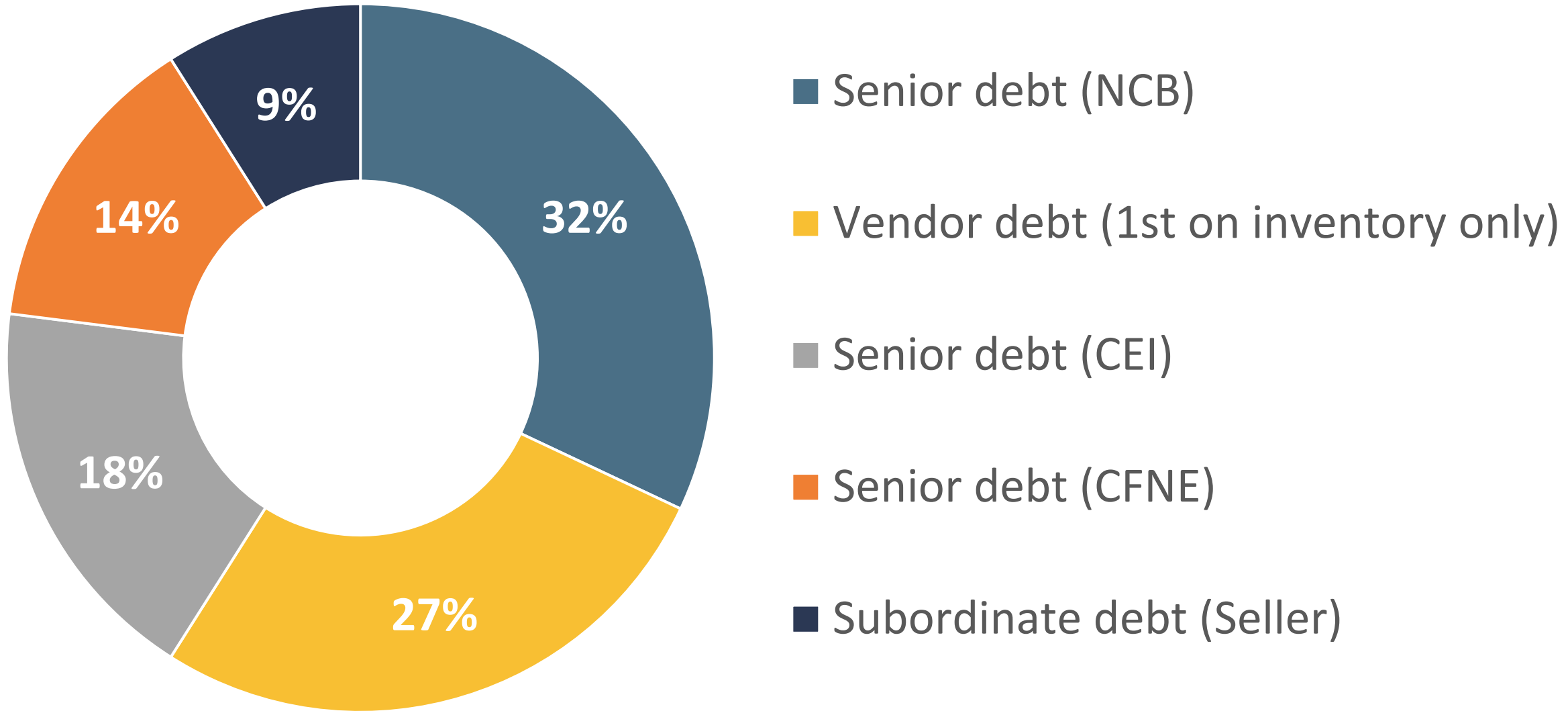
- Senior debt (CFNE)
- Senior debt LOC (CFNE)
- Subordinate debt (Friends/family)
- Subordinate debt (Seller)
- Equity (Worker-owners)

REAL PICKLES, \$749K



- Equity (Community investors)
- Senior debt LOC (Local bank)
- Senior debt (CFNE)
- Equity (Worker-owners)

ISLAND EMPLOYEE COOPERATIVE, \$5.6M



RESOURCES

Employee Ownership Assistance

Regional

- Cooperative Development Services
- UW Center for Cooperatives
- Nexus Community Partners

National

- The ICA Group
- Project Equity
- US Federation of Worker Cooperatives
- Democracy at Work Institute

Accounting/bookkeeping

- Wegner CPAs (National)
- Common Good Bookkeeping (WI)

Attorneys

- David Sparer, Herrick & Kasdorf (WI)
- David Swanson, Dorsey Whitney (MN)

Financing

- Shared Capital Cooperative
- Local Enterprise Assistance Fund (LEAF)

HOW YOU CAN HELP

Learn

more about employee ownership and what businesses in your community might be suitable for conversion

Share

the opportunity for employee ownership succession with colleagues, clients, and others in your community

Support

business owners and employees by sharing resources and connecting them with professionals

THANK YOU!

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Where cooperation is at work, communities prosper.

