
Main Street Employee Ownership Act

THE *MAIN STREET EMPLOYEE OWNERSHIP ACT* IMPROVES ACCESS TO CAPITAL AND TECHNICAL ASSISTANCE TO TRANSITION SMALL BUSINESSES TO EMPLOYEE OWNERSHIP AND SAVE THOUSANDS OF COMPANIES AND JOBS. THE SMALL BUSINESS ADMINISTRATION (SBA) IS PRIMED TO LEAD THE FEDERAL EFFORT, BUT NEEDS NEW AUTHORITY AND TOOLS TO ACHIEVE THIS GOAL. THIS BILL UPDATES THE SBA'S LENDING PRACTICES TO BETTER SERVE EMPLOYEE-OWNED BUSINESSES; FACILITATES SBA LENDING TO COOPERATIVES; AND EMPOWERS THE SBA TO ASSIST SMALL BUSINESS OWNERS IN CONVERTING THEIR COMPANIES TO EMPLOYEE OWNERSHIP.

The Small Business Closure Crisis

Baby boomers who are at or near retirement age own nearly half of the nation's privately-held businesses. That is more than 2.3 million companies, employing one in six workers nationwide or [close to 25 million people](#). While more than half of small business owners expect to retire in the next 10 years, fewer than 15 percent have a formal exit plan in place.

Only a small percentage of these businesses will be passed on to family members. Others may be bought by another local company. However, many of these businesses may close due to a lack of planning or an inability to find a buyer. Larger competitors or investors may buy others, which often leads to local job loss. As these business owners retire, the U.S. will face a massive shift in our local economies that could trigger the closure of small businesses across the country and a significant loss of jobs and investment in our communities.

The Employee Ownership Opportunity

This looming crisis can be turned into a unique opportunity to strengthen small businesses, reward workers, and invest in our Main Street economy by helping these companies transfer ownership to employees.

Employee-owned businesses are companies in which the employees hold a majority of shares either as participants in an Employee Stock Ownership Plan (ESOP) or as members of a worker cooperative (co-op). Other forms of cooperatives like food and consumer co-ops are also organized, owned, and governed by the people who use their products and services. Combined with worker co-ops, there are [over 40,000 cooperative businesses in the U.S. employing 2.1 million workers](#). Further, there are approximately [7,000 ESOP companies](#) in the U.S. that operate across every industry and in every state. ESOPs and cooperatives have [demonstrated that employee ownership](#) is good for business, the workers, and the local economy.

- **Employee ownership strengthens companies.**
 - Transition to employee ownership increases sales and employment by more than 2 percent [increases productivity by 4 to 5 percent](#) the year the business becomes employee owned.
- **Employee ownership rewards workers.**
 - Workers in employee-owned companies are [paid 5 to 12 percent more, have 2.2 times more in retirement savings](#), and have greater job stability.
- **Employee ownership prevents layoffs and creates locally-rooted jobs.**
 - Workers in employee-owned companies are [one-fourth as likely to be laid off](#), and employee-owned companies are less likely to go bankrupt and tend to stay in business longer.

The Main Street Employee Ownership Act

The *Main Street Employee Ownership Act* gives the SBA the tools and authority it needs to support small businesses in transitioning to employee ownership. It would:

- 1. Improve SBA ESOP Lending.** On average, [only two out of 1,000 ESOPs default on a loan](#), indicating how good of an investment employee-owned companies are for the taxpayer. The SBA was authorized to loan to ESOPs in 1979, but this authority is rarely used because it can be so cumbersome for companies that want to transition to employee ownership. ESOPs are currently eligible for SBA 7(a) loans, but some program requirements are out-of-line with commercial ESOP lending and overly burdensome. To address these challenges, this bill:
 - [Aligns SBA 7\(a\) ESOP lending with industry practices](#): Currently, an SBA ESOP loan can only be made to the ESOP plan within the company, while commercial banks typically lend to the company which then makes an internal loan to the employee trust to purchase ownership. This practice is known as a “back-to-back” loan and allows the company to have more flexibility in how the ESOP operates, including how quickly employees get their shares so that both current and future employees will get meaningful stock awards. This bill will allow the SBA 7(a) program to make a back-to-back loan to align with industry practices.
 - [Clarifies that SBA 7\(a\) ESOP loans may be made under the Preferred Lenders Program \(PLP\)](#): Currently, SBA does not allow 7(a) ESOP loans to be made under the delegated lending authority of section 5(b)(7) of the Small Business Act, also known as the PLP. This exclusion makes loan approval especially cumbersome and time consuming because PLP allows for a more streamlined loan application process and expedited approval, among other benefits that make lending smoother for both lenders and borrowers. This legislation would clarify that the SBA Administrator may give authority to lenders participating in PLP to execute SBA 7(a) ESOP loans.
 - [Updates Small Business Act definition for ESOPs](#): This bill aligns the definition of eligible ESOPs for the SBA’s 7(a) ESOP program with the definition of an ESOP established in the federal tax code. This will clarify that ESOPs with both full and limited pass-through voting rights for ESOP participants are eligible for SBA’s lending program.

- 2. Support Smooth Transitions to Employee Ownership.** Often an exiting owner will choose to stay involved in some capacity through the company’s transition to set up the employee owners and new management for success. SBA statute, however, does not allow the seller to ease out in stages. Further, high transaction costs can be a deterrent to choosing employee ownership as an exit strategy. This bill:
 - [Allows Exiting Owners a Transition Period](#): This bill codifies in statute recently released SBA policy that allows the seller to stay on as an owner, officer, director, or key employee of the company when an ESOP or cooperative acquires a controlling interest (51 percent or more); however, any seller who remains as an owner, regardless of percentage of ownership interest, would be required by the SBA to provide a personal guarantee. This change will allow sellers to remain available to ensure the success of the new employee owners.
 - [Helps Finance Transition Costs](#): Transitions to employee ownership can be quite expensive, with an estimated set up cost of \$80,000 or more. Current SBA policy does not allow for SBA financing to help pay for these transaction costs. This bill would allow for such transaction costs to be financed as part of the SBA 7(a) loan.
 - [Grants SBA the Authority to Waive Equity Requirements](#): The SBA currently requires an equity injection of at least 10 percent of the total project cost to be necessary for 7(a) loans that finance change of ownership. To encourage more transitions to employee ownership, this bill would allow the SBA to waive this requirement on a case-by-case basis for loans that finance a change of ownership to employees.

3. Make SBA 7(a) Loans More Accessible to Cooperative Businesses. The majority of co-ops are small businesses. Worker co-ops are especially small with [a median workforce of nine and \\$360,000 in annual revenue](#). Debt financing is critical to these small co-ops because they are limited in access to outside investment capital compared to a traditional investor-owned firm. Access to credit from commercial lenders tends to be difficult because banks frequently lack experience working with co-ops. SBA's 7(a) loans are also typically not a viable option because of the program's personal guarantee requirements. Given that ownership is spread across multiple co-op members, expecting one member, a small group of members, or even all of the members to pledge a personal guarantee is infeasible and impractical. This bill:

- Directs SBA to make the 7(a) program more accessible to all cooperatives: To make SBA 7(a) loans more accessible to cooperatives, this bill directs SBA to work with lenders, the cooperative business community, and other relevant federal agencies to develop practical reforms to make their lending programs more accessible to all eligible cooperatives.

4. Engage Businesses on Employee Ownership Transitions. Most small business owners are unaware of the benefits of employee ownership. The federal government can play a central role in helping small business owners explore employee ownership as an exit strategy, helping to preserve their legacy while keeping businesses and jobs in the local community. This is especially important over the next 15 years given the wave of baby boomer retirements.

- SBA to Promote Employee Ownership Outreach across programs: This bill requires the SBA to coordinate with investment funds licensed through the SBA's Small Business Investment Company program and intermediary lenders through SBA's Microloan program to promote employee ownership as an area to consider for investment and lending.
- Small Business Development Center Employee Ownership and Cooperatives Promotion: This bill requires the SBA to work with the nation's Small Business Development Centers to provide business succession services, including training, executive education, and one-on-one consulting on employee ownership options.
- Interagency Working Group on Employee Ownership: This bill tasks the SBA with coordinating and chairing an interagency working group to develop recommendations to support and increase the number of employee-owned businesses, and increase coordination between federal agencies and employee ownership organizations.

5. Report on SBA's Lending and Outreach to Employee-owned Companies. This legislation amends the existing reporting requirements under the SBA 7(a) ESOP program to include reporting on the number of loans and investments made through SBA's programs, including the 7(a), Microloan, and Small Business Investment Company programs, as well as any outreach and educational activities conducted by SBA with respect to employee-owned businesses.

Endorsements

Adirondack North Country Association • America's SBDC • American Sustainable Business Council • Association for Enterprise Opportunity • California Center for Employee Ownership • Capital Impact Partners • Carolina Common Enterprise • CenterState CEO • City of Newark, New Jersey • Cooperation Buffalo • CooperationWorks! • Cooperative Development Institute • Cooperative Development Services • Cooperative Fund of New England • Democracy at Work Institute • Federation of Protestant Welfare (FPWA) • Food Co-op Initiative • Employee-Owned S Corporations of America (ESCA) • Indiana Center for Employee Ownership • Local Enterprise Assistance Fund (LEAF) • National Cooperative Bank • National Cooperative Business Association CLUSA International • National Co+op Grocers • National Urban League • Neighboring Food Co-op Association • New Jersey/New York Center for Employee Ownership • North American Students of Cooperation • Northwest Cooperative Development Center • Ohio Center for Employee Ownership • Pennsylvania Center for Employee Ownership • Project Equity • Rocky Mountain Center for Employee Ownership • Rocky Mountain Farmers Union • Shared Capital Cooperative • South Carolina Small Business Chamber of Commerce • The Democracy Collaborative • The ESOP Association • The Industrial Commons • U.S. Federation of Worker Cooperatives • Vermont Employee Ownership Center