

Why Worker Cooperatives Conversion and Ownership Make Sense Now

October 15, 2015

Organized by the Federal Reserve Bank of San Francisco

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Welcome

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- Call-in number: 888-625-5230
- Conference code: 72608685
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/10694>

You have two options to ask questions today*:

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- Email us at: communities@stls.frb.org.
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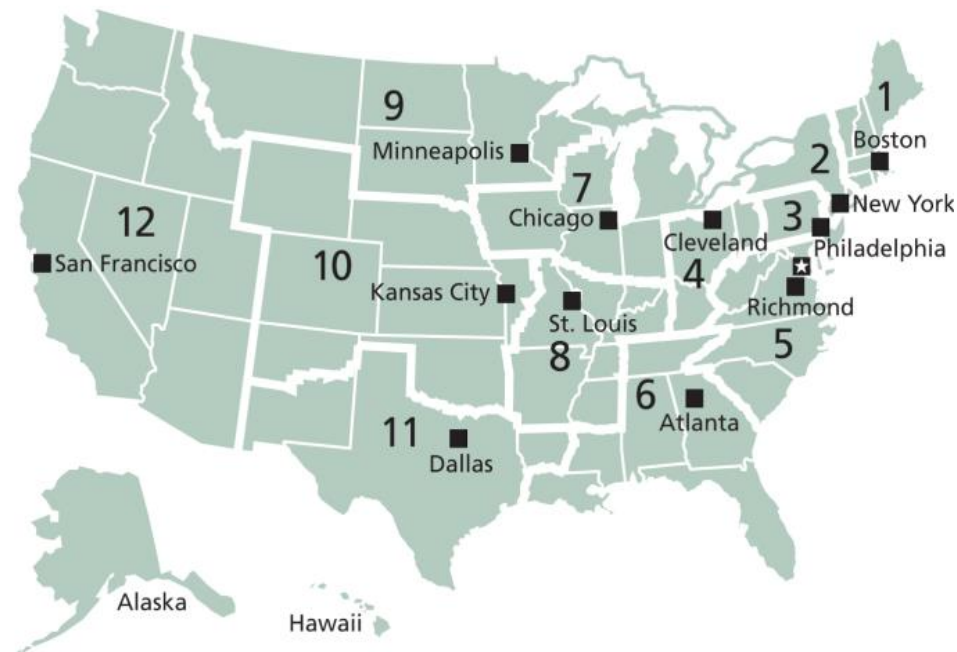
In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

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Community Development (CD)

- The CD function within the Federal Reserve System—consisting of individual departments at each of the 12 Federal Reserve Banks and the Board of Governors—promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, government agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters

- **Alison Lingane**, *Co-founder*, Project Equity
- **Rob Brown**, *Director*, Cooperative Development Institute's Business Ownership Solutions (BOS) program

Project Equity

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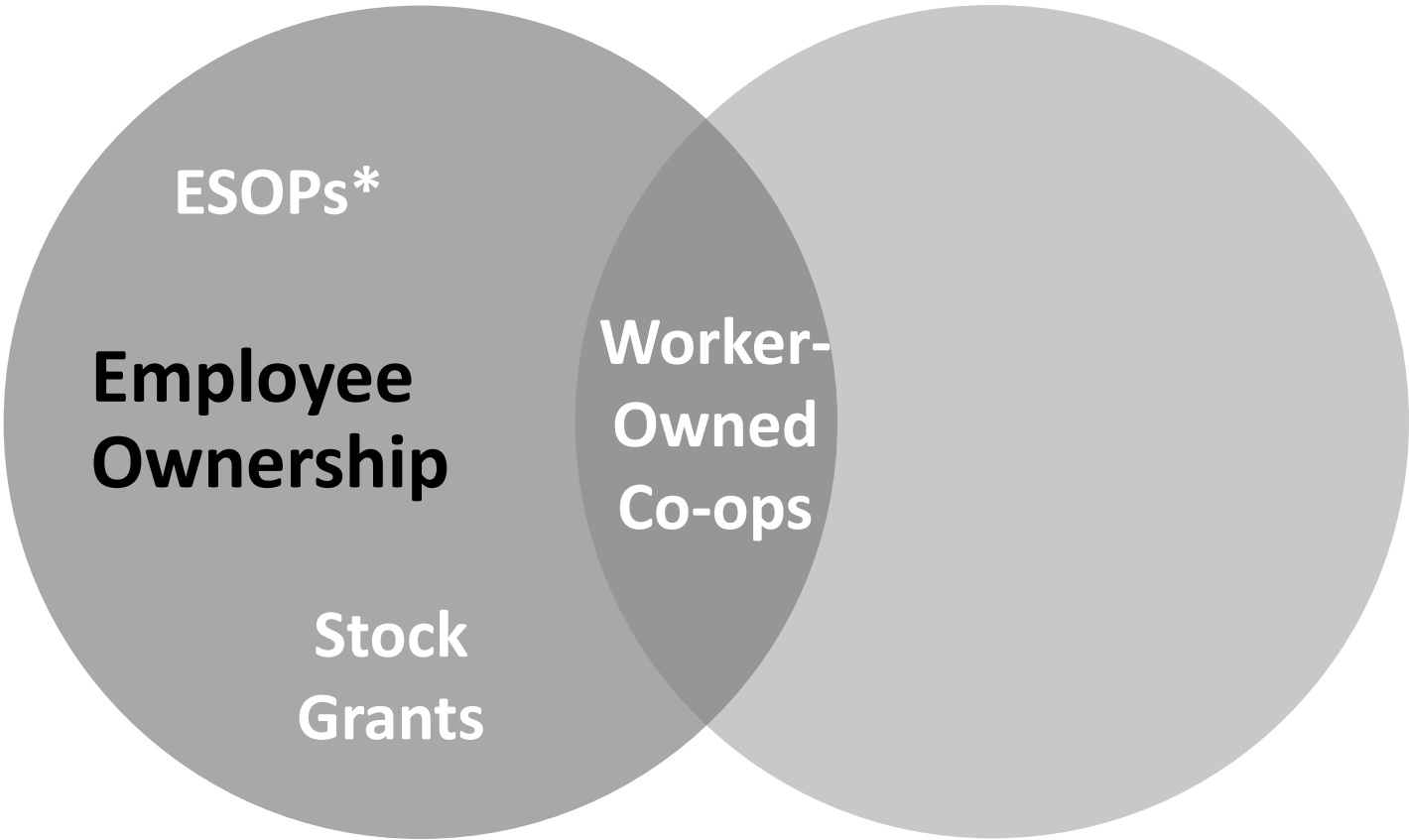
Agenda

1. Intro to and benefits of employee ownership
2. The time is now! Silver Tsunami
3. Highlights of powerful worker cooperatives from around the country
4. Worker cooperative business conversions
5. How can I learn more?

1. INTRO TO AND BENEFITS OF EMPLOYEE OWNERSHIP

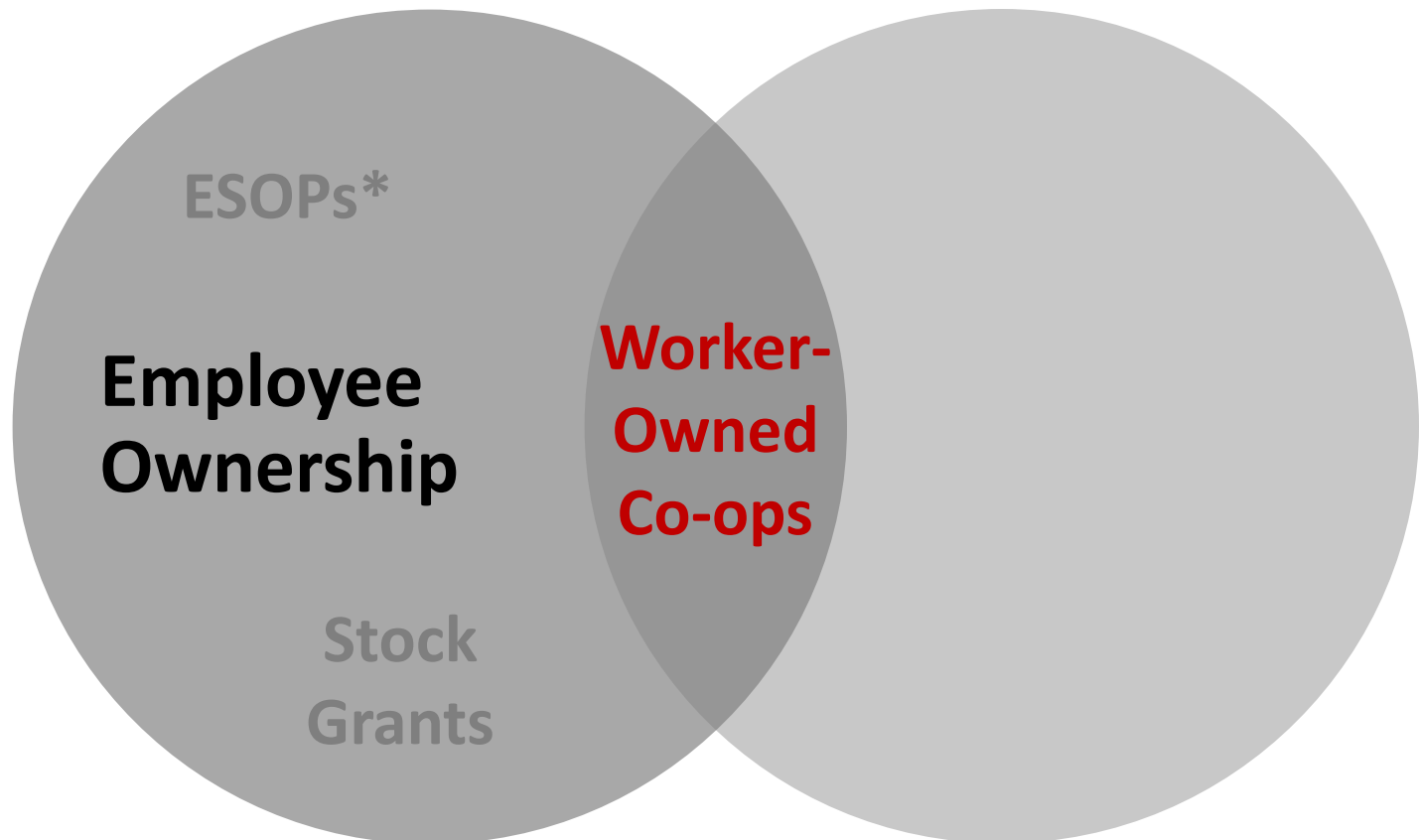
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Employee Ownership Can Take Many Forms

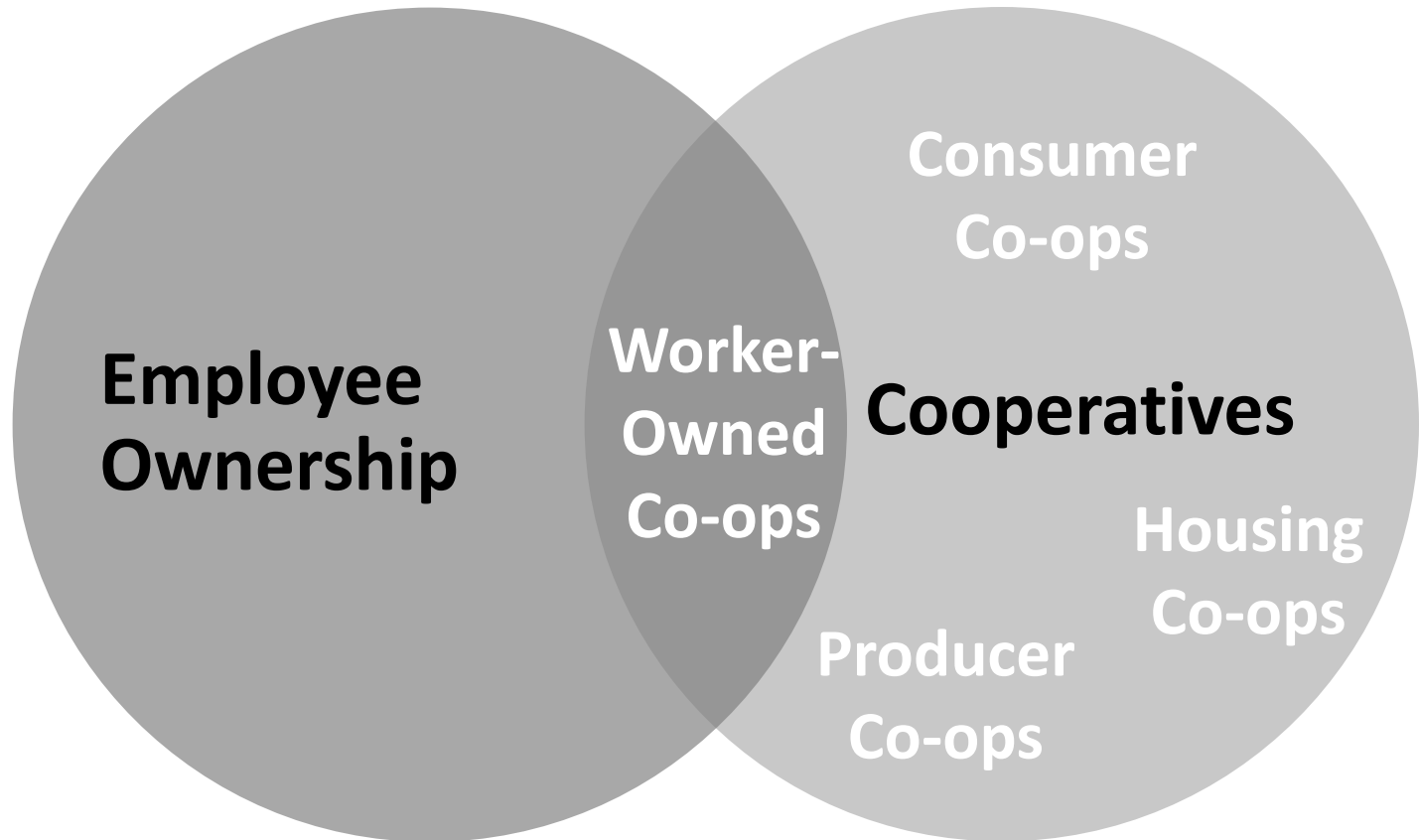


*Employee stock ownership plans
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Today We Will Focus on Worker-Owned Cooperatives



Cooperatives—Businesses Owned and Controlled by Their Members— Also Take Many Forms



What Are Worker-Owned Cooperatives?



**Businesses that are
owned and controlled
by their workers**

Co-ops and Community Economic Development

Better jobs, better businesses, better neighbors

FOR WORKERS

- ✓ Better pay and benefits
 - ✓ Assets (business ownership)
 - ✓ A voice in key decisions
-

FOR BUSINESSES

- ✓ Higher productivity and growth
 - ✓ Lower employee turnover
 - ✓ Improved business longevity
-

FOR SOCIETY

- ✓ Local spending multiplier
 - ✓ Higher voting levels
 - ✓ Correlation with other social benefits
-

All citations are in *Worker Cooperatives: Pathways to Scale*.

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2. THE TIME IS NOW! SILVER TSUNAMI

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Lack of Succession Planning is the #1 Preventable Cause of Job Loss

- According to the Ohio Employee Ownership Center:
 - Only 15 percent of family businesses succeed to the second generation.
 - Only 5 percent succeed to the third generation.
 - Those that don't close are sold to out-of-state buyers or private equity firms that often relocate jobs or the entire business.

What if, instead, these businesses were sold to their workers?

Source: <http://www.oeockent.org/exit-planning/>
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***“Trillions of dollars
of business value
are going to change
hands in the next
10 to 20 years.”***



Image: Brett Ryder, *The Economist*

Quote: Bob Balaban, Headwaters MB, a Denver-based investment bank

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3. HIGHLIGHTS OF POWERFUL WORKER COOPERATIVES FROM AROUND THE COUNTRY



Cooperative Home Care Associates Bronx, NY

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Photos used with permission from CHCA



**Opportunity Threads
Morganton, NC**

Photos used with permission from Opportunity Threads



**New Era Windows
Chicago, IL**

Photos used with permission from New Era Windows

What Do These Initiatives Have in Common?

- Focus on economic impact
 - Business + human development
 - Rooted in community
 - Long-term commitment
 - Design for scale
- **Community economic development**

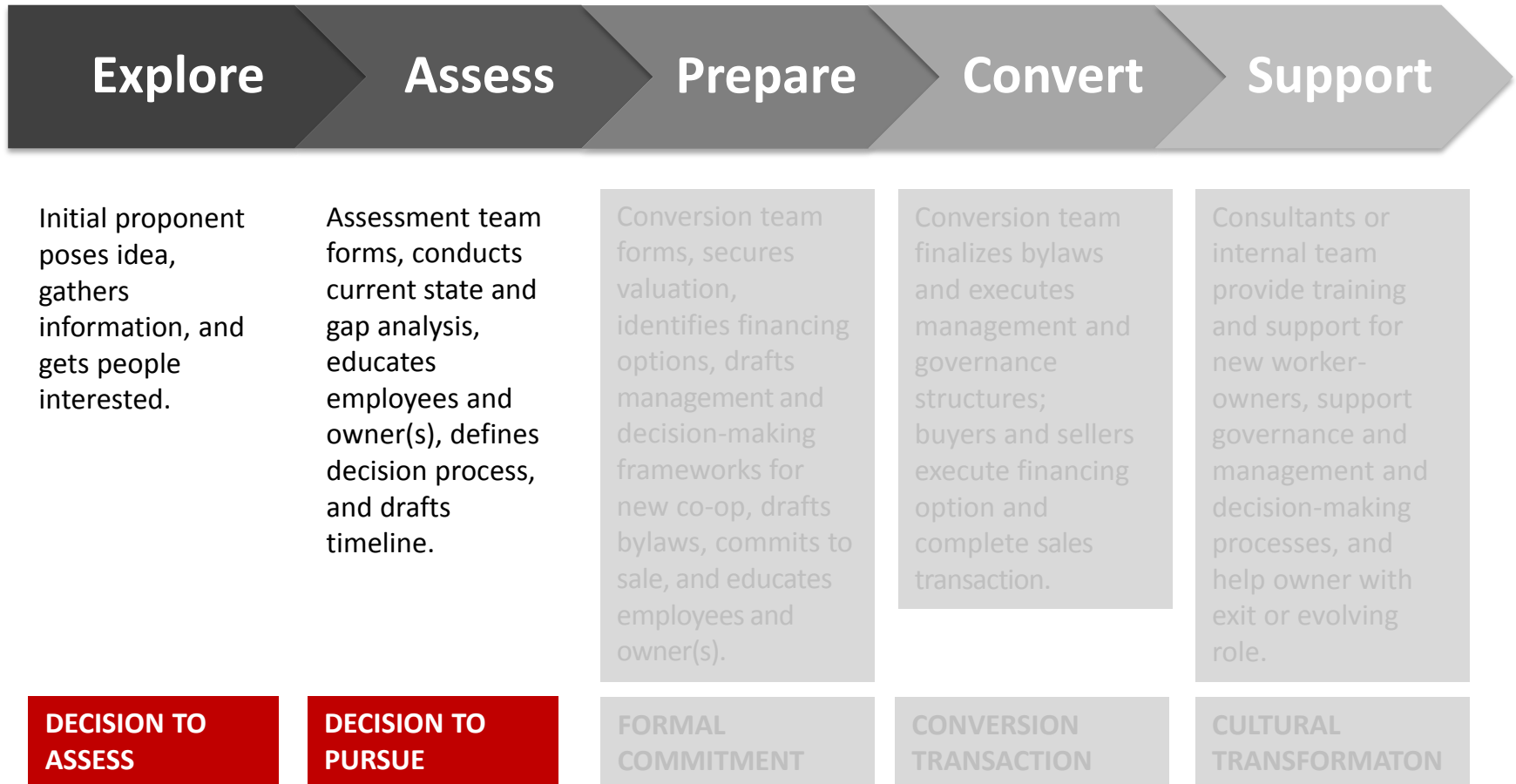
4. WORKER COOPERATIVE BUSINESS CONVERSIONS

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Tactically, What Is a Business “Conversion” to a Worker-Owned Cooperative?

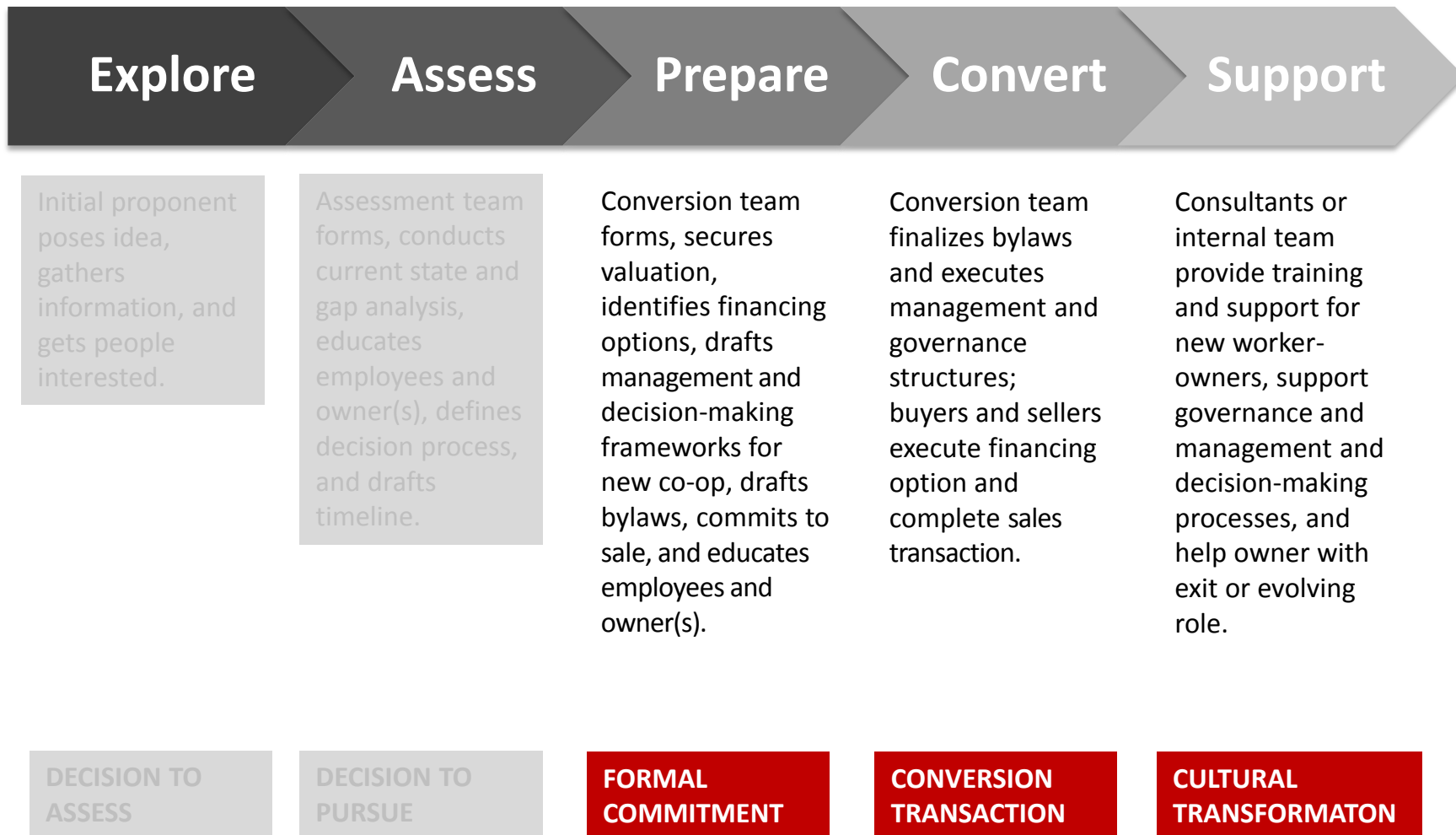
- Typically, the creation of a new business entity that is a worker-owned cooperative
- A sales transaction to sell the existing business to the worker cooperative, typically financed by an outside lender or the selling owner, or by issuing nonvoting equity shares
- A transition of roles and cultures among new worker-owners to take on the ownership responsibility of the new entity and run it under democratic governance

First, a Business Decides if a Worker Cooperative Is the Right Fit and if They Want to Pursue



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Then Comes the Work to Prepare for the Transaction and Support the New Worker-Owners



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How Are “Co-op Conversions” Financed?

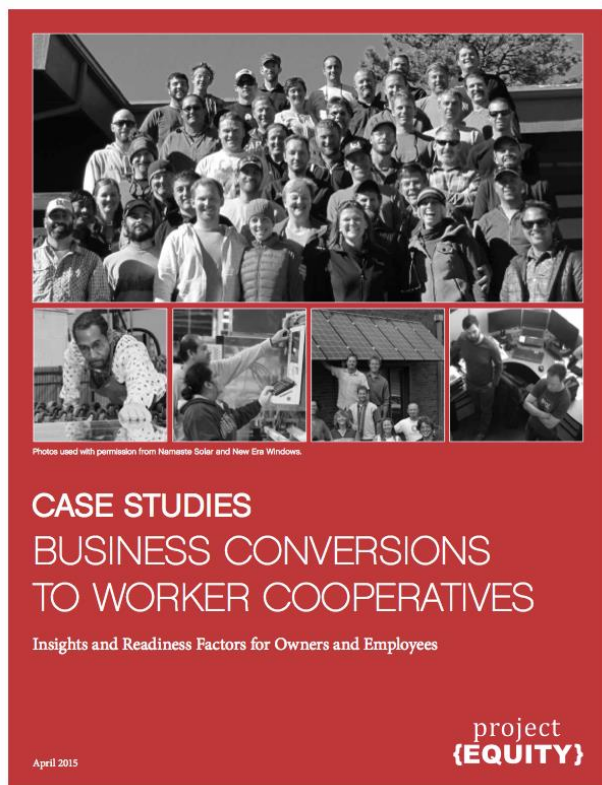
Source of Capital	Debt or Equity?
Loan from selling owner	Debt
CD financial institution or bank loan	Debt
Worker buy-in	Equity
Nonvoting preferred equity shares: <ul style="list-style-type: none"> • Accredited investors • Direct public offering 	Equity
Crowdfunding/gifting: <ul style="list-style-type: none"> • Gifts from community to the co-op 	Gift (becomes equity)

5. HOW CAN I LEARN MORE?

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How Can I Learn More?

CONVERSION CASE STUDIES PUBLISHED BY PROJECT EQUITY



- A dozen case studies of business conversion to worker cooperatives
- Business motivations
- Typology of conversions
- Readiness factors
- Nuts and bolts of each conversion process

Available for download at www.project-equity.org/case-studies-business-conversions/

How Can I Learn More? (continued)

SCHEDULE A 30-MINUTE PHONE CONSULTATION

- We welcome businesses that want to learn more about worker cooperatives to get their key questions answered.
- Sign up on Project Equity's website



Project Equity Cooperative Business Incubator

LAUNCHED FALL 2015

- Cohort training
- Business coaching
- TA (legal, accounting, financing)
- Access to capital
- Hands-on advisors
- Peer learning
- Employee training

For businesses converting to worker ownership

Applications accepted on a rolling basis

[www.project-equity.org/
cooperative-incubator](http://www.project-equity.org/cooperative-incubator)

Cooperative Development Institute

Rob Brown
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Cooperative Development Institute BOS

- BOS promotes worker ownership in Maine and works with owners and employees to convert a business to a worker-owned cooperative.

Stonington, Maine: The Lobster Capital of the World



Island Employee Cooperative



Conversion Partners and Advisors

- Cooperative Development Institute (CDI)
- Independent Retailers Shared Services Cooperative
- Specialized Accounting Services
- Costal Enterprises, Inc. (CEI)
- Cooperative Fund of New England
- National Cooperative Bank
- Associated Grocers of New England

Starting an Understanding of What a Cooperative Is

- Stonington Lobster Co-op
- Associated Grocers of New England
- Blue Hill Co-op
- Independent Retailers Shared Services Cooperative
- New England-style town governance

Some Innovations

- Commitment to buy Class A and Class B shares over time is considered as equity by lenders.
- Loan covenants requiring substantial TA contracts into the future as added “loan insurance”
- Internal Revenue Service 1042 Rollover – benefit to seller
- Training grants from Eastern Maine Community College

Some Innovations

- Founders' shares
 - \$1000 Class A share—the worker-owner share
 - \$1000 Class B share—nonvoting equity share
- Employees bought one Class A and six Class B shares.
- Future members will pay \$7000 for one Class A share; no Class B shares are available.

Some Challenges

- Limited entrepreneurial experience
- Existing “boss culture”
- Complexity and variety of businesses
- Immediate exit of owner on short timeline
- No up-front employee equity
- No models to look to
- Building the culture after the conversion
- Hours of operation

Organizing the Cooperative Steering Committee for a Business Conversion

- Work with technical assistance (TA) provider to:
 - Coordinate the learning process for employees
 - Develop the business plan and legal, finance, organizational, and management structures
 - Execute due diligence and negotiate purchase and sale (P&S)
 - Plan for education, training, and knowledge transfer

Creating Good Jobs Building Wealth through Ownership Supporting the Community



Some Guidelines for Success

- Start with strong, committed member leadership
- Set realistic goals and focus on them
- Understand that you are facilitating a business transaction
- Base decisions on market research and business planning rather than opinions and ideology
- Use technical assistance from cooperative developers and industry experts

Some Guidelines for Success (continued)

- Invest in member education and keep members informed and involved
- Undergo company-wide skills assessment before conversion
- Create a workforce development plan
- Create a company-wide communications plan
- Include tasks from these plans in individual employee's work plans and budget for them

Contact Information

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Questions?

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1. Email us at: communities@stls.frb.org.
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Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website, and in the next few days, we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website, along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

The website provides an array of practical resources to help you in your role as a CD professional, whether your work involves supporting people, places, the practice of CD, or small business development.