NLC NATIONAL LEAGUE OF CITIES
CENTER FOR CITY SOLUTIONS

Democracy at Work Institute
USFWC

THE MUNICIPAL PLAYBOOK FOR

Employee Ownership

About National League of Cities

The National League of Cities (NLC) is the voice of America's cities, towns and villages, representing more than 200 million people. NLC works to strengthen local leadership, influence federal policy and drive innovative solutions.

NLC's Center for City Solutions provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues, and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches in cities.

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About The Democracy at Work Institute

The Democracy at Work Institute (DAWI) was founded by the US Federation of Worker Cooperatives as the only national think- and do-tank expanding the promise of worker ownership to communities locked out of good jobs and business ownership opportunities, especially for BIPOC, immigrant, and low-wage workers. Through research, innovation, government relations, and education, DAWI supports worker ownership as the superior business model for creating and saving jobs with dignity, fair compensation, and opportunities for wealth and skill-building.

DAWI brings both a birds-eye view of the national stage and an experiential on-the-ground understanding of cooperative business, making sure that our growing worker cooperative movement is both rooted in worker cooperatives themselves and branches out to reach new communities of worker-owners.

Learn more about The Democracy at Work Institute at www.institute.coop. Contact the team at info@institute.coop if you are interested in exploring any of the approaches detailed in this report.

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What is Employee Ownership?

AS CITIES WORK to address today's challenges with an eye toward future economic growth and stability, employee ownership offers significant benefits as a cornerstone of municipal economic and workforce development strategies.

Employee ownership is a well-established economic development tactic with a strong record in saving jobs and helping workers build wealth. The most common forms of employee ownership are **Employee Stock Ownership Plans (ESOPs)** and **worker cooperatives**. These models anchor essential production and services in communities, retain jobs, and preserve and grow the local tax base.

The benefits to municipalities of integrating employee ownership into an economic and workforce development strategy include:

Job security and business stability
Employee owners are six times less likely to be laid off than non-employee-owners. Long-term employee-owned businesses can stabilize communities, save jobs, expand consumer purchasing power, and help businesses remain locally rooted.[1]

Higher wages
Employee owners making less than $30,000 have, on average, a 17 percent greater median household net worth and a 22 percent higher median income from wages than their non-owner peers.[2]

Employee Stock Ownership Plans (ESOPs)
A type of retirement plan, similar to a 401(k) plan, that invests primarily in company stock and holds its assets in a trust for employees.

Worker Cooperatives
Businesses owned and governed by workers, with the profits shared based on labor contribution and democratic decision-making.

Asset building
In a 2018 survey of employee-owned firms, workers nearing retirement had on average $147,522 in retirement savings from their ownership stakes. In contrast, more than one-third of all workers nearing retirement have neither retirement savings nor a defined benefit pension.[3]

Quality jobs
Cooperative Home Care Associates (CHCA) is a New York-based home care agency. Employee-owned and operated, CHCA retains workers four to five times longer than the average home care agency, which is an industry that typically struggles with high turnover and uneven job quality.[4]

For more information on models of employee ownership and the potential it has for driving equitable economic recovery and growth, please read Economic Recovery and Employee Ownership.

Employee ownership also reduces racial and gender gaps in wealth and income:

- Employee owners of color have a 30 percent higher wage income than non-employee owners of color.[5]
- Women employee owners earn 17 percent more than their non-employee-owner counterparts.[6]
- Low- and moderate-income workers with ESOP accounts have assets ranging from $15,000 to $6,000,000, with a median asset value of $165,000. Compare this to the average American household, which has just $17,000 in savings.[7]

Along with closing racial and gender wealth gaps, employee ownership can increase economic stability and reduce the risk of local enterprises closing. In past economic downturns, employee-owned businesses have been shown to retain more of their workforce compared to other businesses.[8,9] Workers who are a part of an employee-owned company during these setbacks are also less likely to rely on city social services amidst the economic contraction.[10] Municipalities can look to the many federal agency initiatives flowing from the American Rescue Plan Act (ARPA) to advance technical assistance and capital access for employee ownership.[11]

How and Why to Use this Playbook

THE DEMOCRACY AT WORK INSTITUTE and the National League of Cities have developed this playbook to assist with integrating employee ownership into municipal economic and workforce development strategies. It offers three approaches that address specific pain points faced by many municipalities:

- **Support legacy businesses in transitioning to employee ownership**
- **Create quality jobs for people who are left out of the mainstream job market**
- **Foster small business resilience and growth through secondary cooperatives**

While employee ownership is not a solution for all development and recovery challenges, it can be an effective strategy for preserving jobs and businesses; addressing racial and gender income and wealth disparities; and improving job quality and access to work.

Readers seeking inspiration and examples of how employee ownership can be a tool for addressing critical community issues can read through the playbook in its entirety to learn different development approaches. Other readers that have a specific economic and workforce development issue in mind can go directly to the play that tackles the problem to learn the steps for deploying an employee ownership strategy.

Each play is organized by the problem it addresses and includes the specific employee ownership solution, the win for cities and communities, and recommendations for getting started.

PLAY #1: Support Legacy Businesses in Transitioning to Employee Ownership

PROBLEM: **Legacy business closures resulting in a loss of jobs and local ownership**

Many cities, towns and villages are home to businesses that have had their doors open for 20 years or more. These "legacy businesses" contribute to the history and identity of a neighborhood — and they too often close without warning due to lack of buyers or a succession plan for the owner.

This is a growing crisis. Since 2010, members of the Baby Boomer generation have reached retirement age at a rate of 10,000 people per day. By 2030, all boomers will be at least 65.[12] With Boomers owning 2.34 million small businesses and employing more than 25 million people across the country, this "Silver Tsunami" will greatly alter the business landscape in every community.[13] Without timely and sustained intervention, this will become an emergency for municipalities as the net growth rate of new businesses declines, leaving communities without jobs, economic engines, and a tax base to fund public services.

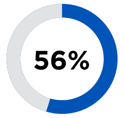
Jobs lost from small business closures are unlikely to be replaced by jobs of a similar type and quality, particularly for workers of color.[14] This job loss has been keenly felt in smaller cities and towns across the

Baby Boomers employ **more than 25 million people** and own **2.34 million small businesses** across the country, many of which are legacy businesses at risk of closing upon their retirement.

country where the loss of even a single business can be devastating. In rural America, this is the most common outcome; when a rural business closes, those jobs disappear, and are rarely replaced.[15]

With an uneven road to a post-COVID recovery compounded by the Silver Tsunami, cities, towns and villages are at risk of losing many of their small businesses.

Thirty-five percent of small business owners plan to exit within the next 5-10 years and 21 percent intend to leave in less than five years.[16] However, about 80 percent of business owners have not created or shared succession plans.[17]



More than half of business owners plan to leave their businesses in the next 10 years.

While many owners do not have formal exit plans, many have given it some thought, with 48 percent considering an outside buyer and 39 percent interested in transferring ownership to a family member.[18] But this also presents a dilemma: Nationally, only 12 percent of second-generation businesses successfully transition to the next generation in the family, and only 20-30 percent of commercial listings actually sell.[19]

Some of these businesses, even those that are profitable, will simply close their doors due to lacking a succession plan. Many other successful businesses will be sold to out-of-state companies or private equity firms whose interests lead them to reduce local staff or relocate entirely. Meanwhile the wealth developed in these companies, which once stayed local, now moves elsewhere.

While not all businesses can be saved by employee ownership because of the business model, capital needs, or market challenges, some can be: Business owners need an alternative to selling to an outside buyer, or worse, closing their doors.

SOLUTION: **Support legacy businesses in selling to employees**

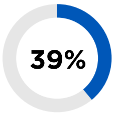
Retiring owners of strong companies concerned about their business legacy might prefer to see the company go to the employees who have helped build it. However, many lack awareness of employee ownership as a practical option.

Business owners can transfer ownership to employees gradually or all at once, retain any role they want in the company, and end up with a fair price with lower taxes on the gain due to significant tax benefits.[20,21] In most cases, the sale can be accomplished not with employee dollars, but tax-deductible future company profits.[22]

Cities have the opportunity to retain many small businesses and create a foundation for a more resilient economy by supporting the transition of companies to employee ownership.

The employees of many companies are best positioned to keep them running and locally-owned. They may also be the only potential buyers of the business. Indeed, it is the workers who have the most at stake and are best positioned to carry on the legacy of the company as an important local economic and community resource.

Despite many business owners lacking clear succession plans, 39 percent of those surveyed in a 2019 study expressed interest in transitioning ownership to their managers or employees with 13 percent of those surveyed considering a transfer to an ESOP.[23] This demonstrates the need for information and support to consider this option.



Of business owners are interested in transitioning ownership to their managers or employees.

Cities can fill this gap and support transitions to employee ownership through a combination of education, referrals to technical assistance and, where possible, increasing access to affordable and appropriate capital.

What's the win?

The benefits to cities are many: Long-standing community businesses are retained, local business ownership is expanded, and the local tax base is preserved. With employee ownership, the wealth developed by small businesses stays and is spent locally.

Business owners can exit having received market value for their business and retire with dignity by choosing to sell to their employees. Employees retain their jobs, gain new skills and, most importantly, acquire wealth that will appreciate alongside future business success. ESOPs, the most common form of employee ownership, have been shown to grow between 2.3 and 2.4 percent per year faster in sales and employment after implementing the stock plan than would have been otherwise expected in comparison to non-ESOP companies that are similar in size, industry, and region.[24]

ESOPs have been shown to grow **between 2.3 and 2.4 percent** per year faster after implementing the stock plan than comparable non-ESOP companies.

Getting started

Municipalities can support legacy business transitions to employee ownership in several ways. The following pathway charts initial steps to establish and support this work.

FIRST:
Understand your legacy businesses

To understand how best to reach legacy business owners in a community, it is important to know who they are. It is also important to collect data to show what the impact of their closures would mean on the local residents and economy.

Conduct a market research study on your city's small businesses to develop a database of legacy businesses with key information such as:

- What year did the business open?
- What is the owner's name and contact information?
- Where are they located?
- What sector or industry do they operate in?
- What are the demographics of owners and workers?
- How many full-time equivalent employees are there?
- When is the current owner likely to retire or exit?

Some cities are able to use their business license data to answer many of these questions. The **City of Atlanta, Georgia** pulled information from the local Office of Revenue, for example, to generate a map of all legacy businesses that have operated for 20 years or more.

Many cities, however, face preemption barriers in accessing this information. Cities facing similar barriers can contract-out for a market research study, as **Fremont**[25] and **Santa Clara**, **California**[26] have done, or can partner with an academic institution.[27]

Another example is the **City of Durham, North Carolina**. Working with the Democracy at Work Institute and the National League of Cities in the Shared Equity in Economic Development Fellowship program,* the City of Durham wanted to preserve their minority-owned businesses by supporting them in the transition to employee ownership.

The Office of Economic and Workforce Development, in conjunction with core partners, initiated the first citywide business survey in which over 700 businesses participated. This generated business data for the building of a database to identify legacy businesses in Durham. With this data in hand, the city was able to design programs in conjunction with business service providers to determine a targeted outreach strategy to provide succession planning services, including the option of transitioning to employee ownership.

* Learn more about the Shared Equity in Economic Development Fellowship program at https://www.nlc.org/initiative/shared-equity-in-economic-development/

THIS PLAY IN ACTION: San Francisco, CA's Legacy Business Registry

Another approach local leaders can take to collecting small business data is to create an opt-in system for business owners to self-register and receive helpful information and resources.

The **City of San Francisco, California**'s Legacy Business Program is an example of a registry that is paired with business assistance and rent stabilization grants to help retain legacy businesses.[28] In 2014, a report by the city's Budget and Legislative Analyst's Office showed the closure of small businesses had reached record numbers.[29] Seeking to assist the city's longstanding businesses, the city introduced the **Legacy Business Program** in two phases: The city's Board of Supervisors first passed an ordinance to create an opt-in **Legacy Business Registry** to vet and recognize its longstanding, community-serving businesses. The city then asked voters to create the **Legacy Business Historic Preservation Fund** to provide grants to approved legacy business owners and property owners who agree to lease extensions with legacy business tenants.

Businesses apply to join the registry by providing contact information and a historical narrative detailing their ownership history and contributions to the community. If their applications are accepted, the businesses become eligible for grant funding and educational and promotional assistance, including tools and services to help them establish succession plans and explore a transition to employee ownership.

Data collected from legacy businesses helps the city better target services and track their needs. As more businesses join the registry, the city's data on its legacy businesses becomes more comprehensive. This in turn reinforces the importance of legacy business-facing services and encourages their inclusion in other interagency initiatives, such as the Cultural Districts program developed to celebrate and strengthen the unique cultural identities and institutions of San Francisco's neighborhoods.[30]

NEXT:
Equip business service providers with information about employee ownership

With data in hand, cities can convene their business service provider community and introduce them to the basics of employee ownership transitions.

Legacy business data will show sector and community concentrations, and local leaders should begin by targeting the groups that serve or interact with these businesses and businesses owners, such as:

- Accountants
- Banks and credit unions
- Community Development Financial Institutions
- Chambers of Commerce
- City and/or county small business and workforce agencies
- Economic Development Corporations
- Community Development Corporations
- Financial advisors
- Merchant associations
- Industry associations
- Small Business Development Centers

Because business service providers do not provide the same services to all types of businesses, cities should tailor outreach to emphasize what is most important to each provider.

Consider hosting two separate conversations in one convening, or two separate events entirely: One for groups that generally serve larger businesses (those with 20 or more employees), and one for smaller businesses. Holding separate events will allow for more nuanced discussions on how to best reach and support businesses with different needs and options.

Service providers engaging in these convenings should be encouraged to learn about employee ownership and what a transition process looks like, from the exploration stage, through the final transfer of ownership and the training of the new employee-owners. Service providers need to know about the process to be able to confidently guide their clients to technical assistance experts who can provide more specialized ESOP and worker cooperative services.

In addition to equipping service providers to make referrals, the convening should also focus on defining their role in directly supporting the company transition or post-transition process itself. Business owners who decide to explore a sale to employees will require services that are not employee ownership-specific or exclusive, such as business valuation, planning and accounting. ARPA funds can be used to contract with or grant to qualified nonprofit service providers that specialize in employee ownership technical assistance.

Cities, towns, and villages that do not have local or regional employee ownership service providers can connect with the **Workers to Owners Collaborative**, a national network of business service providers working to transition small businesses to employee ownership, to identify providers that meet the needs of the community.[31]

AFTER:
Incentivize and institutionalize transitions to employee ownership

Once a city has identified local legacy businesses and has equipped service providers with the information necessary for supporting employee ownership transitions, the city can consider additional approaches for scaling and accelerating its impact.

Cities around the country have invested in employee ownership transitions by:

- Providing information and resources through trainings, web pages and business support lines
- Integrating ownership transition education and support into existing small business programs and services
- Subsidizing technical assistance and training
- Increasing access to appropriate financing

What follows here are several ideas and examples that cities can consider for expanding resources, incentivizing uptake, and ensuring that employee ownership is well integrated into local policies, programs, and priorities.

Create a resource and referral portal

Cities interested in preserving legacy businesses can consider hosting a web page to educate business owners about employee ownership and refer them to technical assistance providers. In its simplest form, a web page hosted by the city or its trusted partners can help owners learn about employee ownership and connect to city supported business services (e.g. succession planning) and transition experts like the **City of Santa Clara, California** has done for its Worker Cooperative Initiative.*

A more robust approach would be creating a "hotline" where local business owners can call in and be directed to appropriate employee ownership expertise. The **City of New York**'s Owner to Owners initiative is an example of a hotline for employee ownership transitions that refers businesses to several technical assistance providers depending on the types of services needed.**

Provide or facilitate loan guarantees to unlock financing for smaller business transitions

Debt, equity or some combination is generally used to help employees acquire shares or assets from the existing owner. Most Small Business Administration (SBA) products, such as the 7a loan program, have required personal guarantees, which generally do not support smaller employee-owned businesses. This in turn creates a capital access gap for workers seeking to purchase a business from a selling owner.

To incentivize traditional lenders to finance transitions of smaller businesses to employee ownership, consider creating a **loan guarantee pool** to cover a borrower's debt obligation in the event that the borrower defaults on a loan. Loan guarantees can provide equitable access to capital for workers seeking to purchase a business from a selling owner as lenders are less likely to extend loans to workers that do not have the personal collateral to back more traditional loans. A loan guarantee mitigates the upfront risk for lenders, unlocking capital to finance transitions of smaller businesses to employee ownership.

Loan Guarantee Pool
Public funds that are set aside with the purpose of repaying a borrower's debt in the event that they default on a loan, thereby mitigating upfront risk for lenders.

Loan guarantee pools are an attractive option for cities to stimulate lending for several reasons:

- **Cities do not need to provide any upfront capital**, as a bank or credit union will still be the primary lender.
- **Cities can mitigate risk by defining the terms of a loan guarantee pool** by including due diligence requirements. The loan guarantee pool is not expected to cover any losses associated with loans that do not conform to those terms.
- **Cities can spur the development of a business service industry to support the guaranteed loans.** This in turn can stimulate demand for more specific buyout-focused investment funds and fee-based technical assistance providers.

The city does not have to be the primary source of funding for these guarantees. Cities should consider partnering with local philanthropic foundations to help establish the loan guarantee pool to incentivize the local lending market.

Create or amend existing loan programs for financing smaller business transitions

Cities can develop alternatives to conventional personal guarantee requirements from their existing lending programs, if they are available, to ensure that workers have equitable access to existing loans. By providing guarantees that do not have that requirement, cities can fill a major capital access gap.

ARPA allocated $3 billion to the U.S. Department of Commerce's Economic Development Administration, funds that can be used to create or augment existing revolving loan funds to finance employee ownership transitions or growth. The State Small Business Credit Initiative, a $10 billion recovery initiative to increase access to capital for economic development through small businesses, now includes transitions to employee ownership in the program's capital and grant funding priorities.

* For more information on the Worker Cooperative Initiative from the City of Santa Clara, see: https://www.santaclaraca.gov/business-development/economic-development/worker-cooperative-initiative

** For more information on the Owner to Owners initiative from New York City, see: https://www.owner2owners.nyc/

THIS PLAY IN ACTION:

Amending Loan Programs in Miami, FL and Berkeley, CA

Miami, Florida amended its Economic Development Loan Fund (EDLF) to include business transitions to employee ownership. Capitalized using Community Development Block Grant funding, the EDLF program was created to provide businesses with financial assistance in order to support the retention and creation of jobs for low-to-moderate income residents. Seeking to preserve longstanding, minority-owned small businesses by assisting their transition to employee ownership, the Miami City Commission passed a resolution amending the program's policies to include conversion assistance, authorizing a maximum loan amount of $80,000; larger loans could be authorized with City Commission approval on a case-by-case basis. This has significantly increased the capital available for employee ownership transitions locally.[32]

Berkeley, California amended its revolving loan program to remove obstacles that precluded worker cooperatives from accessing loans that were available to all other small businesses by creating an alternative to the conventional personal guarantee: In the case of worker cooperatives, a limited guarantee alternative may be issued to a panel of owners representing at least 50 percent of ownership in the cooperative. This group of owners is held responsible for equal shares of the loan amount, rather than the whole amount. This change was reviewed by the U.S. Department of Commerce's Economic Development Administration (EDA) which funds the revolving loan program, and can serve as a powerful precedent for other cities making a similar change.[33]

Fund technical assistance

Cities can accelerate the uptake of legacy business conversions by making it easier for owners to explore the idea of a sale to their employees. This can be done by creating programs that reimburse the costs of technical assistance for business owners, or that directly fund qualified technical assistance providers to provide services for business transitions.

The **City of Minneapolis, Minnesota**, for example, has expanded its Business Technical Assistance Program to include services aimed at supporting the development of new Minneapolis cooperatives by launching the Co-operative Technical Assistance Program.[34] This program offers a free feasibility training for potential and new cooperatives and existing businesses interested in converting into a cooperative.

Cities can preserve legacy businesses and retain jobs and local ownership by equipping the local capital and service provider ecosystem to support employee ownership transitions.

PLAY #2: Create Quality Jobs for People Who are Left Out of the Mainstream Job Market

PROBLEM: **Lack of access to quality jobs and barriers to employment**

Despite the traditional economic indicators pointing to growth, economic security remains out of reach for many Americans. According to PolicyLink, roughly four out of every 10 economically insecure adults work regularly, but low wages and limited hours make them unable to move out of economic insecurity.[35]

According to PolicyLink, **four out of every 10** economically insecure adults are unable to make ends meet despite working regularly.

The erosion of economic security is being driven by the deterioration of workers' rights, anti-union battles, and the increase of contract and gig work over stable employment.[36] For many others, economic security has never been possible as they have been locked out of stable and secure employment entirely due to discrimination.

Without access to high-quality employment opportunities, many people seek precarious work arrangements and find themselves vulnerable to exploitation and inconsistent work schedules. These pathways also often lack opportunities for significant skill-building, career advancement or increases in income. For many, this makes growing and retaining wealth nearly impossible.

SOLUTION: **Establish a pathway for quality job creation through employee ownership**

Employee ownership provides access to quality jobs and the ability to shape working conditions for excluded workers, including people otherwise locked out of employment relationships.

For contingent or contract workers, employee ownership creates the opportunity for protections and economies of scale by pooling resources to market their services, reduce costs, and negotiate with clients.

For communities that face discriminatory barriers to employment, employee ownership provides a means for people to access work in the first place by creating and owning their own businesses.

For workers in essential but undervalued, and often exploited industries such as home healthcare and childcare — many of whom are women of color — employee ownership can provide better working conditions, more consistent and predictable work schedules, higher wages, and opportunities for professional development and career advancement.

What's the win?

Local leaders can demonstrate that there are viable pathways to address employment inequities for excluded workers. Cities can support those with few employment options to participate in the labor market and have better working conditions by using employee ownership as an additional workforce development tool.[37] This can enable a city to tackle unemployment while targeting assistance to some among the most vulnerable workers and communities. With this in their toolbox, local governments at all levels of capacity and resources can advance equitable workforce development for residents.

Getting started

Municipalities can support the creation of successful start-up employee-owned businesses in several ways, but the following steps provide a starting point for supporting the development of a worker cooperative that will help meet the needs of community members facing barriers to employment.

This play focuses on worker cooperatives specifically as it is the employee ownership model that is best suited to meet the needs of a startup business for workers with employment barriers.

FIRST:
Define the startup worker cooperative development project

At the onset, cities should identify the target population or industry for the development of a startup worker cooperative project, and should meet with partners who work with that community. Gather input on the concept, learn what services they provide, and understand where they see challenges or obstacles to implementation.

Work with these partners to shape a vision for an initial worker cooperative pilot project before determining which city agency will lead the project; what other departments will need to contribute; the role of community partners in supporting the project and where additional technical assistance expertise will be needed; and what, if any, additional support the city can provide, such as funding for:

- Business development, including a feasibility study
- Worker-owner recruitment and training
- Worker cooperative development technical assistance

Plans for this pilot project should account for any existing procurement or service needs that city agencies may have. These can present potential business development opportunities for community members who have the skills and experiences to meet these needs.

NEXT:
Solicit an RFP to develop the worker cooperative

Once all municipal and community stakeholders are aligned on the pilot project, shape an RFP to solicit proposals. Proposals should demonstrate the ability to produce the desired community and business outcomes, including the expertise and relationships required for worker recruitment, training, and business development.

A successful startup worker cooperative project will require the involvement of a market or client developer, a worker cooperative developer, and a worker-owner recruiter. It is unlikely that one organization can play all three roles, but the primary organization should be deeply connected to the target population and have experience in workforce development or business development. This group will likely need to bring in a worker cooperative developer with expertise in entity formation, democratic management and governance training.*

The project should ideally have a 12- to 18-month timeline, with the first year focused on business planning, a feasibility study, market/client development, recruitment, entity formation and training. Subsequent months should focus on continued training for worker-owners of the startup cooperative, client development and service delivery.

* For more information on governance systems and employee ownership structures, see the Resource Guide from Democracy at Work Institute: https://institute.coop/governance

AFTER:

Support and learn from the project

Now that the city has solicited an RFP to fund the development of a worker cooperative for community members who confront barriers to employment, there are several next steps a city can take to support the project and learn from the experience to shape future startup cooperatives.

Meet regularly and track progress

Sponsoring government agencies should establish regular meetings with the worker cooperative project team in order to track progress and identify areas the city can help. Cities should look to maintain direct working relationships with key stakeholders and local providers that support the target worker community.

Act as an anchor client for the worker cooperative

In some cases, a city itself may be well-suited to being an anchor client for the burgeoning business. This is a version of an anchor procurement strategy where, instead of sourcing from existing businesses, cities address service needs by contracting with the developing employee-owned business.[38] This has two major impacts: The city can meet its service needs, while also supporting a nascent business owned by workers who would otherwise face barriers to employment.

One way to explore this opportunity is to have city and/or county agencies examine existing procurement gaps during the pilot project's feasibility study. The feasibility study can assess city service needs across priority agencies and community partners to determine a potential industry focus for the pilot, including an analysis of growth opportunities, challenges, and the resources and skills sets required. If there is a potential match between the target population and the city's service needs, this could provide an early foundation upon which the business can establish itself and grow.

Draw from lessons learned to expand on the model locally

Cities following this approach should also take lessons learned from the pilot project to determine how to continue supporting the growth of worker cooperatives. This is an opportunity to identify additional ways to include employee ownership in other city services and programs furthering business development, such as in future workforce development initiatives for workers with employment barriers.

THIS PLAY IN ACTION:

San Francisco, CA's Rapid Response Cooperative for DreamSF Fellows

The City and County of **San Francisco, California** partnered with the Democracy at Work Institute to develop a worker cooperative for young professionals in the DreamSF Fellowship program who faced barriers to employment.[39]

To provide employment opportunities for Fellows at the conclusion of the program, San Francisco contracted with DAWI to set up an out-of-the-box worker cooperative using the organization's **Rapid Response Cooperative** (RRC) model. RRCs are worker-owned, professional staffing cooperatives for individuals working as independent contractors, and those who are seeking high-quality jobs and opportunities for entrepreneurial skill development. Upon business start-up, the City of San Francisco served as the "primary anchor client" for the RRC by contracting with the cooperative for services such as interpretation, design or community outreach.

The city also played a critical role in the development of the RRC, dedicating DreamSF staff time to recruitment for the cooperative, and by promoting the RRC to other city agencies for contract opportunities. DAWI funded the start-up costs, set up the RRC, provided back office administration support, and trained members in cooperative business practices.

Ultimately, the City and County of San Francisco decided to integrate this approach into the "Building Back Stronger" initiative, which was launched to invest more than $28 million in essential workforce services.[40]

PLAY #3: Foster Small Business Resilience and Growth Through Secondary Cooperatives

PROBLEM: **Small businesses have limited access to growth and recovery opportunities**

There are 31.7 million small businesses in the U.S., including 25.7 million that have no staff members[41,42] and 3.8 million **microbusinesses** with 1-9 employees.[43] Though these microbusinesses account for a relatively small share of employment, they are the most common kind of employer firm and have a significant footprint in the country's business landscape.[44] Microbusinesses, including nonemployer businesses, are also heavily represented in sectors that have been hard-hit by the economic impact of COVID-19 and associated restrictions, including in the food, homecare and childcare industries.[45]

Microbusinesses
Small businesses with 1-9 employees and those that are "nonemployer businesses" and have no paid employees.

In an effort to adapt, many microbusinesses have relied on online platforms to continue operating, including for marketing, businesses administration or delivery services. The costs of these services, however, often outweigh immediate benefits for small, individual firms. This is particularly evident in the case of the food service industry, which saw a dramatic uptick in reliance on food delivery applications during the COVID-19 pandemic, despite small restaurant businesses facing high fees relative to their revenue, and the couriers operating as "gig workers" and receiving few benefits.[46] Childcare providers — many of whom are nonemployers and were already operating on thin margins pre-pandemic[47] — have also struggled with COVID-19 impacts and restrictions: two out of every five childcare providers expect to close permanently without public assistance.[48] This highlights a clear and growing need for aggregation and third-party support in industries dominated by microbusinesses.

Many microbusinesses also struggle to navigate and access existing government supports, such as the Paycheck Protection Program (PPE). Despite programs such as PPE aiming to assist businesses through recovery, microbusinesses lacking revenue volume, commercial banking relationships, or time to navigate the process that was faced with particular difficulties.[49]

As small businesses work toward recovery, they need tailored solutions to reduce costs, retain workers, and increase revenue.

SOLUTION: **Small business resilience and recovery through secondary cooperative models**

Many small businesses struggling to make ends meet in hard-hit industries such as restaurants or childcare are sole proprietorships or microbusinesses. Microbusiness can play a critical role as an economic toehold for owners who may otherwise have difficulty accessing good jobs. Notably, immigrant and Black business owners are overrepresented among microbusiness entrepreneurs.[50] Yet microbusinesses and sole proprietorships are also quite vulnerable to economic downturns and shifts in the market, and generally have fewer reserves and less access to capital than larger businesses.[51] Any local small business support strategy concerned with racial equity must address the vulnerability of microbusinesses.

The **secondary cooperative** model is one potential source of support, through which businesses — not individuals — come together to form a cooperative to meet their shared business needs. Models like purchasing and marketing cooperatives can be used to strengthen microbusinesses by aggregating their market power to reduce cost of goods, market their products, access new markets, and even advocate for better industry practices. A well-known example is ACE Hardware, a purchasing cooperative of independent retailers that collectively buy inventory and share a brand to reduce costs and strengthen market recognition.

Secondary Cooperative
A model in which businesses, not individuals, form a cooperative in order to meet shared business needs (such as purchasing or marketing) by leveraging their combined market power.

Secondary cooperatives provide supportive infrastructure for small businesses in a shared industry that may be struggling with everything from high backend costs to being too small to take on larger institutional procurement contracts, or to get the attention of a larger customer base. Secondary cooperatives are generally less labor- and capital-intensive to start than employee-owned businesses, and strong precedents and supports exist.

Networking small businesses into secondary cooperatives to reduce costs and increase their revenue will help them recover more quickly and create the supportive infrastructure for their long-term viability and growth.

THIS PLAY IN ACTION:
The CoRise Illinois Pilot

CoRise Cooperative was developed by the ICA Group, an organization dedicated to the development of worker cooperatives, and the Service Employees International Union (SEIU) to elevate the family childcare industry. As a cooperative family childcare network, CoRise is designed to support family childcare providers (FCCPs) by reducing administrative burden and increasing revenue streams, including by serving as an intermediary for public contracts.[52]

Family childcare providers are licensed small business owners who care for children in their own homes and are professionally trained, licensed, and meet state and federal health and safety requirements. Family childcare is one of the most underfunded and vulnerable segments of a largely under-resourced and poorly supported childcare industry, with many FCCPs working long hours, for low pay and no benefits. In Illinois, family childcare providers are 99.3 percent women, 90 percent working parents, and 31.5 percent African American.[53] Despite serving as a childcare lifeline for other essential workers during the COVID-19 pandemic, many struggled to access business relief programs and are particularly vulnerable to closure without comprehensive support.[54]

Seeing the need to invest in support infrastructure for FCCPs, the ICA Group and SEIU partnered to launch a pilot, "CoRise Illinois." In fiscal year 2021-2022, CoRise Illinois will administer a contract for subsidized childcare for low-income families (the Child Care Assistance Program) through the **City of Chicago, Illinois** and provide business technical assistance to its member-providers. CoRise Illinois is currently organized as a nonprofit with strong representation from FCCPs in decision-making, but intends to shift to a fully cooperatively governed entity.

What's the win?

Cities can help small businesses recover while positioning them for future growth and sustainability through secondary cooperatives.

In the case of marketing and delivery platforms, underrepresented and overlooked businesses can gain access to new and larger markets while potentially keeping money in the community longer than other businesses.[55] A secondary cooperative form that bundles member business services in order to secure larger contracts can help cities advance commitments to supplier diversity and local procurement.

For cities that seek to support sole proprietors of other hard-hit industries such as childcare, secondary cooperatives can be a strategy for networking small businesses to reduce costs on administrative overhead through economies of scale, while providing access to training and business development opportunities.

Getting started

Secondary cooperatives can take different forms depending on the industry and the issues they are designed to address. The following steps and examples can help cities identify the models that can meet local small business needs.

FIRST:
Research the need for a secondary cooperative

Identify a target industry to focus on that could benefit from the aggregation of microbusiness into a secondary cooperative, then meet with groups that represent these businesses to understand their needs. These could be merchant and industry associations; minority chambers of commerce; minority, women-owned business entity programs; single industry business incubators; community development corporations; community organizations such as churches and charter schools; or labor groups.

It is likely there will not be a single priority sector for a given city. Consider where the greatest needs are and identify whether a secondary cooperative form might address those needs. Some sectors and issues may be less visible than others, so rely on trusted community sources to provide critical information on struggling small businesses and sole proprietors in unfamiliar industries.

Some criteria for narrowing the scope of a secondary cooperative project on a specific industry include:

- Overrepresentation by owners of color in comparison to population
- Sole proprietors and/or microbusinesses are the dominant size of business
- Industry average pay is low and job quality is poor with limited to no benefits
- Business owners face high administrative overhead costs
- Business owners struggle to access larger markets and secure larger procurement contracts due to limited capacity to find, service, and manage contracts

NEXT:

Shape the project scope and define the city's role

Once you have identified an industry to focus on, develop a project vision with intended outcomes and potential partners. Consider how the city can support the project, including:

- Will the city fund feasibility studies, technical assistance, a platform for marketing, or business development services?
- Will the city play a convening role to bring together small businesses and their support organizations, cooperative developers, city representatives, and others?
- Will the city be an anchor client and/or create procurement set-asides for secondary cooperatives?

Determine the resources and city staff support that will be necessary to fulfill these roles, and assess where there is interest and will.

In shaping the project, meet with stakeholders, including sector informants and relevant city agencies to explore the challenges and opportunities to secondary cooperative development for the target industry:

- What are the businesses' needs?
    - For example: Reducing shared costs and administrative work, acquiring procurement contracts, or managing their own delivery platforms
- What technical assistance and cooperative development expertise is required?
- Who in the community could be the entrepreneur developer to lead this work?
- Where are there openings, opportunities, will and capacity within city government to support an initiative?
- How will success and impact be measured?

AFTER:

Choose the model and support implementation

With the project vision in hand, consider the secondary cooperative models that may work best for the target industry and the business needs.

If the goals are:

Reducing shared costs: Consider a purchasing cooperative model to secure bulk goods and services at better rates

Improving access to anchor procurement contracts: Consider a marketing cooperative model where businesses bundle services to serve larger contracts

Increasing revenue to create financial security: Consider a shared services cooperative model to centralize purchasing, information sharing and business support

After defining the project scope, shape an RFP to solicit proposals to fund the development of the secondary cooperative. Proposals should demonstrate the ability to produce your desired outcomes, including the expertise and relationships required for developing the secondary cooperative model, and recruiting and training small businesses.

Proposals should also include benchmarks for evaluating impact and progress, such as qualitative assessments on job quality, and metrics such as changes to income and hours worked.

A successful project will benefit from the leadership of a developer capable and ambitious enough to support business growth and sustained success. A qualified developer is familiar with the target industry, understands the challenges of scale and working conditions, and can recruit businesses to join the cooperative.

Consider a 12-month project timeline, with the first 6-9 months focused on secondary cooperative entity formation, business recruitment, and member service development. The final months should focus on service provision and growing the network.

THIS PLAY IN ACTION: Washington, D.C.'s Community Purchasing Alliance

The Community Purchasing Alliance (CPA) is a member-owned cooperative that leverages the buying power of community institutions to accelerate progress towards sustainability, equity and justice.[56] Over the last five years, CPA has worked to build a successful purchasing co-op in **Washington, D.C.** composed of over 120 community "anchors" such as churches, schools, affordable housing and other nonprofit organizations. CPA works with these institutions to aggregate their purchasing needs to secure goods and services at bulk prices, generating significant savings for members. Together more than half of the co-op contract spend stays with local small businesses, including more than $13 million with DC-based minority-owned businesses over the last three years.

Cities interested in supporting a local purchasing cooperative like CPA can start by first convening local community institutions, including faith groups, schools, philanthropies, affordable housing, and other nonprofit organizations to discuss the benefits of directing procurement spending to support local, equitable economic development. The city's small business agency or service provider partners, as well as any existing Minority- and Women-Owned Business Enterprise (MWBE) program, should also be included.

This is an opportunity to explore opportunities for aggregating institutional purchasing needs to generate savings, as well as to examine the barriers to identifying existing suppliers and expanding local supplier diversity. This will inform what role the city can play in supporting small businesses to become vendors, and in matching them and established MWBE suppliers to community anchors.

Cities can also consider options for funding the development of a cooperative to coordinate aggregate purchasing, facilitate local supplier matchmaking, and expand the pipeline of considered vendors. While local philanthropies may be interested in funding this work, a city may decide to shape an RFP and solicit proposals from community groups with the ability to organize community institutions, support successful group purchase, and build the longer term infrastructure of the cooperative. Municipal governments can also serve the longer-term role of a co-convener of this effort, supporting the secondary cooperative as it grows its capacity and infrastructure.

Conclusion

Equipped with recovery and reinvestment funding, cities, towns and villages have an opportunity to think beyond the traditional economic and workforce development strategies, and to instead address the acute needs of small businesses while establishing long-term supports for the community.

Municipal assistance in the adoption and implementation of the employee ownership business model can help communities recover strongly and more equitably. Whether by helping small businesses in the transition to employee stock ownership plans, or sparking a start-up worker cooperative or a secondary cooperative, cities can leverage the employee ownership model to address job quality and wealth inequities, while also fostering local business stability and growth. Funding provided through ARPA and other federal recovery initiatives can help make employee ownership an accessible tool for cities interested in using the business model.

As this Playbook has detailed, employee ownership offers local governments an approach to not only respond, recover and rebuild from the COVID-19 pandemic, but also an approach that will reduce racial and gender gaps in wealth and income, and retain businesses and jobs in the local economy. By taking these specific actions, cities can support employee ownership as a long-term solution to a more equitable recovery and future for small businesses and the community at large.

Appendix

For cities looking for additional information on how to help legacy businesses transition to employee ownership, how employee-owners can strengthen a local economy, or for further details on Employee Stock Ownership Plans, please see the following resources:

- Becoming Employee Owned: A Small Business Toolkit for Transitioning to Employee Ownership (Democracy at Work Institute)
- Ensuring Your Legacy: Succession Planning & Democratic Employee Ownership (ICA Group)
- Employee Ownership: Building a Better American Economy (National Center for Employee Ownership)
- Worker Co-ops: Weathering the Storm of COVID-19 (US Federation of Worker Cooperatives)
- Using an Employee Stock Ownership Plan (ESOP) for Business Continuity in a Closely Held Company (National Center for Employee Ownership)

For additional information and resources, see the Democracy at Work Institute's Resource Library at https://institute.coop/resources.

If you would like further information on these resources or models or how they can be adopted for your own community, contact the Democracy at Work Institute at info@institute.coop.

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