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MOTION BY SUPERVISOR HOLLY J. MITCHELL September 12, 2023

Launching a "Worker Ownership Initiative" to Build Wealth, Retain Quality Jobs, and Stabilize Businesses

Los Angeles County (County) is facing growing and severe economic inequality. Inequality is driven, in part, by a widening gap in wages and the region's changing economic structure: the region is losing its middle wage jobs while it is growing low- and high-wage jobs. Between 1990 and 2012, the County experienced a 27% decline in middle-wage jobs in industries like wholesale trade, construction, manufacturing, and health care. Since 1979, the highest-paid workers in the County have seen their wages increase by 13%, while wages for the lowest-paid workers have declined by 25%.[1] Beyond income inequality, wealth is even more unevenly distributed across socioeconomic and racial groups. In California, 20% of all net worth is concentrated in the 30 wealthiest zip codes, home to just 2% of Californians.[2] Black and Mexican households in the County have 1% of the wealth of whites – or one cent for every dollar of wealth held

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[1] "An Equity Profile of the Los Angeles Region," *PolicyLink & Program for Environmental & Regional Equity (PERE) at USC*: https://www.policylink.org/resources-tools/an-equity-profile-of-los-angeles
[2] "Income Inequality in California," *Public Policy Institute of California*: https://www.ppic.org/publication/income-inequality-in-california.

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by the average white household in the County.[3] According to one analysis, if there were no racial disparities in income, the County's Gross Domestic Product would have been $380 billion higher in 2014–a 58% increase.[4]

In recent years, the County Board of Supervisors (Board) has made strategic investments to advance equitable and inclusive economic development and help close the racial wealth gap. Using the Equity Explorer Mapping Tool, County departments have equitably invested American Rescue Plan (ARP) funds into the highest need regions and allocated over $100M to workforce development and small business investments. Still, despite these commitments, the County has a considerable way to go to truly move the needle on the economic injustice in the region.

To tackle these deep inequities, the County can strategically embrace an innovative economic development strategy: scaling broad-based worker ownership across the County. Worker ownership models are a well-proven means of retaining local businesses and increasing workers' economic security through a combined quality job (higher wages, better benefits) and asset building (profit-sharing, retirement savings, and shared business ownership) strategy. Unlike other forms of worker ownership (e.g., stock options), "broad-based" worker ownership gives all employees who meet basic criteria (e.g., full-time employee) the opportunity to become employee-owners. The term "worker ownership" in this document refers to broad-based worker ownership. There are three main forms of worker-owners, each with their own benefits and limitations: 1) Employee Stock Ownership Plans (ESOP); 2) Worker Cooperatives; and 3) Employee Ownership Trusts. An ESOP is the most common form of broad-based employee ownership in the U.S and it's defined as a retirement plan that owns all or part of a company on behalf of its employees. Worker Cooperatives are directly and wholly controlled by the employee owners, who share in profits and elect and serve on the Board of Directors. Lastly, Employee Ownership Trusts are a more flexible form of broad-based employee

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[3] "The Color of Wealth in Los Angeles," *Duke University, The New School, the University of California, Los Angeles, and the Insight Center for Community Economic Development.*
[4] "An Equity Profile of the Los Angeles Region," *PolicyLink & Program for Environmental & Regional Equity (PERE) at USC*: https://www.policylink.org/resources-tools/an-equity-profile-of-los-angeles.

ownership that, like ESOPs, can be adapted to incorporate democratic principles and profit sharing. The Employee Ownership Trust model is well-established in the U.K. and newer to the U.S.[5]

There is strong evidence that demonstrates the advantages of worker ownership models for both workers and businesses. For workers, studies have shown that a greater percentage of employee-owners have better pay and benefits. A study by the National Center for Employee Ownership found that worker-owners in an ESOP have a 92% greater household net worth, 53% higher median job tenure, and 33% higher median income from wages. Worker-owners can build wealth through profit-sharing, retirement savings, and shared business ownership. Another study found that median patronage (surplus profit paid to workers in addition to wages) distribution among the cooperatives surveyed was $2,300 per worker-owner annually. For businesses, evidence shows that aligning financial incentives of workers and business owners increases company performance through lower employee turnover, faster growth, greater productivity, greater profitability, and longer firm survival. Worker cooperatives across all industries had an average profit margin that was almost 8.5% higher than the average private firm (6.4% vs. 5.9%). Businesses also get tax benefits when converting to worker ownership, such as the 1042 rollover, which allows owners selling at least 30% of their company to ESOP to defer capital gains taxes.[6]

There are two primary strategies to scaling worker ownership: worker ownership incubation (starting a new worker-owned company) and worker ownership transition (converting a traditional company to a worker-owned company). Worker ownership transitions enable job retention, a strategy that is particularly timely given the ongoing “silver tsunami” – a wave of retirements by baby boomer business owners, which is contributing to small business closures, job loss, consolidation of wealth, and corporate

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[5] “The Case for Employee Ownership: Why Philanthropy and Government Should Invest in this Powerful Business Model,” *Project Equity*: https://project-equity.org/publication/case-for-employee-ownership/.
[6] “The Case for Employee Ownership: Why Philanthropy and Government Should Invest in this Powerful Business Model,” *Project Equity*: https://project-equity.org/publication/case-for-employee-ownership/.

growth over local economic health. In California, more than 50% of businesses have owners that are 55 years or older – thus, over 3.9 million small business employees are at risk of losing their jobs in the coming years due to owner retirement. With small businesses constituting 43% of the County's workforce, worker ownership transitions can help prevent economic dislocation.

Other local and state governments across the country have embraced employee ownership as a core economic development initiative. States such as Iowa, Missouri, Vermont, Massachusetts, and Colorado are among those currently promoting worker ownership. Launched in 2020, the city of Chicago has a new community wealth building initiative that includes employee ownership as a key component of its strategy (which also includes limited-equity housing cooperatives, community land trusts, and community investment vehicles); $15M in ARP funding has been committed to the pilot. Similarly, launched in 2015, the city of New York's Worker Cooperative Business Development Initiative enables businesses to launch or transition into worker cooperatives through a network of technical assistance providers. The initiative, which receives annual funding (~$3.5M last year) provides grants to 14 worker ownership developers across New York City. The initiative includes an Owners-to-Owners hotline which businesses can call free of charge to get connected to experts that can advise and assist with their transition. Over the past eight years, they have created ~100 cooperatives with a focus on BIPOC workers.

There is also emerging momentum in California and the County to embrace this strategy. Senate Bill 1407, the *Expanding Employee Ownership Act (Becker)* passed in 2022. This bill established an employee ownership hub within California Go-Biz to work with counties on scaling employee ownership; however, the bill has not yet been fully funded in the State's budget. Around the County, community organizations such as the L.A. Co-Op Lab and the Filipino Workers Center are incubating and developing cooperatives with a focus on low-income, vulnerable workers. In the city of Los Angeles, a motion from Councilmembers Raman and Price directed the city to study opportunities for scaling worker ownership models. Within the County, the Department of Economic Opportunity (DEO) has already contracted with Project Equity, a cooperative technical assistance provider, as part of the ARP-funded Economic Mobility Initiative, with the goal of building a pipeline of businesses for worker ownership transitions. Project Equity has also already worked directly with the First District to engage and educate businesses in their region.

Thus, while the County has taken initial steps, there is an exciting opportunity for deeper and more strategic investment in this strategy. The County can launch a Worker Ownership Initiative (WOI) that takes a holistic, ecosystem-building approach to scaling employee ownership across the County. DEO can lead the WOI and can coordinate with local stakeholders, including technical providers, worker centers, labor unions, legal providers, business advisors, and investors. WOI should also be integrated into DEO's existing small business, workforce development, and layoff aversion programs and services. DEO can work with other departments including the Internal Services Department to identify opportunities for incentivizing and supporting worker-owned businesses.

When workers are also owners, corporate profits no longer accrue to distant outside investors. Rather, a true "win-win" emerges for workers, businesses, and communities, one that can help rebuild a more just County economy that truly uplifts all of its residents.

I THEREFORE MOVE THAT THE BOARD OF SUPERVISORS:

1. Direct the Director of the Department of Economic Opportunity (DEO), in collaboration with the Director of the Poverty Alleviation Initiative, to establish the Worker Ownership Initiative (WOI) within 90 days as a key to wealth building, job retention, and business stabilization strategy through worker ownership transitions and worker cooperatives incubations. WOI should include the development of a multiyear strategy to catalyze broad-based worker ownership across Los Angeles County (County), modeled off of other jurisdictions such as the New York City Worker Cooperative Business Development Initiative. DEO should establish clear outcome goals and performance metrics (e.g., number of cooperatives created) and report to the Board in writing quarterly on the WOI's progress, including on directives 1a-1f, for the next two years. Within WOI, DEO's activities should include, but not be limited to, the following:

a. Analyze the County's business ecosystem and the County's procurement trends, in collaboration with the Internal Services Department (ISD), and develop a plan to strategically engage priority industries to build a worker ownership incubation and transition pipeline;

b. Convene a group of expert advisors that will support the development of WOI's strategy, review WOI's progress, and serve as a source of informal expertise and guidance on the County's strategy to scale worker ownership. Outreach for the advisors should include both local and national worker ownership experts, such as the L.A. Co-Op Lab, Project Equity, and Democracy at Work, as well as worker ownership stakeholders such as Los Angeles cooperatives, legal providers, and cooperative investors;

c. Serve as a field-building leader in the worker ownership ecosystem by convening and coordinating key stakeholders such as cooperative developers, worker ownership lawyers, business legacy planners, accountants, worker centers, chambers of commerce, and other community organizing groups and relevant partners. Identify opportunities to contract with technical assistance providers through DEO's existing small business development and workforce development programs and through new opportunities;

d. Proactively outreach to and connect existing worker-owned businesses to relevant DEO programs and services, such as the small business legal assistance program and workforce training resources;

e. Design and launch a culturally competent and linguistically inclusive communications campaign to elevate worker ownership as an opportunity to improve outcomes for both business owners and workers. Integrate worker ownership opportunities and advising into the products and messaging of DEO's existing partners, such as American's Job Center of California providers, chambers of commerce, the Los Angeles Small Business Development Center Network, and labor unions;

f. Explicitly include worker-owned businesses in the County's social enterprise bid price preference program and promote this qualification in all communications; worker-owned businesses should be defined as "majority employee-owned," which consists of businesses that are 51% or more owned by Employee Stock Ownership Plans or Employee Ownership Trusts, or that are worker cooperatives;

2. Direct the Director of ISD through the Office of Strategic Contracting Equity, in partnership with the Director of DEO, to report back to the Board in writing in 90 days with an analysis of the County's procurement trends, a forecast of future procurement needs, and recommendations on opportunities to align targeted worker ownership industry engagement and development with the County's procurement needs. The report should also include an analysis and recommendations on other potential procurement incentives and strategies that the County could implement to invest in and support worker-owned businesses.
3. Direct the Director of DEO to report back to the Board in writing in 120 days on a potential County-wide legacy business program. The report should:
    a. Use registration or other existing data, such as a Project Equity study, to assess the number of existing legacy businesses as well as employment, revenue, geography, industry, or other key impact measures;
    b. Study the design and impact of existing legacy business programs in the County (City of Los Angeles, Long Beach, Pasadena, Los Angeles Conservancy) as well as other successful programs across the country (San Francisco, Boston, etc.);
    c. Provide program recommendations for the County legacy business program, including how the County's program can best coordinate, support, and build on other programs and how legacy business programming can support DEO's WOI.
4. Direct the Director of DEO, in collaboration with the CEO, to report back to the Board in writing in 90 days with recommendations on potential financial products and a fund administrator to support the scaling of worker ownership transitions. The report should consider grants to cover the cost of worker ownership transition technical assistance as well as low-interest loans to bolster or provide credit enhancement to existing loan funds. The recommendations should also consider

opportunities to include worker ownership transitions as an eligible use of existing economic development funds.

5. Direct the Director of DEO, in collaboration with the Chief Executive Officer, to report back to the Board in writing in 90 days with an identification and analysis of potential funding sources to support the work of WOI. The report should include an analysis of opportunities to leverage existing economic development and workforce development funding sources in support of worker ownership, including layoff aversion funds. The report should also explore opportunities to raise philanthropic funding to support WOI, in collaboration with the Center for Strategic Partnerships.
6. Delegate authority to the Director of DEO to execute a contract(s) up to $1 million for a third-party technical assistance partner(s) for DEO to perform the aforementioned directives and work on the Initiative's implementation with ISD and other relevant partners.

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