

MA Center for Employee Ownership (MassCEO)



Inv

MassCEO Greater Boston Symposium on Employee Ownership

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YVONNE HAO SECRETARY OF ECONOMIC DEVELOPMENT

February 28, 2025 Cambridge, MA





- Introduction from City of Cambridge
- Overview of MassCEO
- Featured ESOP Company: PCA Design
- Featured Co-op Company: Broadway Bicycle
- Funding Employee Ownership: SBA
- Roundtable Discussion
- Closing Comments

A REAL PROPERTY AND A REAL

What is employee ownership?

Employee ownership is a term for any arrangement in which a company's employees own shares in their company or the right to the value of shares in their company. Employee ownership is a broad concept that can take many forms, ranging from simple grants of shares to highly structured plans.

Congress created tax incentives to promote the creation of employee stock ownership plans (ESOPs), currently the most common form of employee ownership in the United States. Other forms of employee ownership include worker cooperatives, employee ownership trusts, direct employee ownership, stock options, stock grants, and synthetic equity (granting the right to the value of shares but not the shares themselves).



What are the benefits of employee ownership?

The most common reason companies become employeeowned is that the current owner wants to exit their ownership position and does not want to leave the business in the hands of private equity, a public company, or another outsider.

Other companies use employee ownership for reasons such as attracting and retaining employees, providing them long-term wealth building, and supporting a highinvolvement work culture where employees are given the opportunity to think and act like owners.





The Massachusetts Center for Employee Ownership (MassCEO) will provide training, education, and direct assistance to grow and sustain a strong network of employee-owned businesses in the Commonwealth.

- Established by the Legislature in 2017
- Originally operated as a consultancy
- Formalized by the Legislature as an Agency under the MA Office of Business Development (MOBD) in November 2022
- Advisory Board empaneled March 1, 2024
- Interim Director Kevin Kuros appointed by MOBD director in April 2024



The Advisory Board on Employee Ownership Established Several Objectives for the Center:

- Develop branding and collateral material to support employee ownership in the Commonwealth
- Develop and host a series of "Road Show" events to raise awareness of employee ownership
- Develop a database of existing employee-owned businesses and businesses that may consider EO
- Establish a grant or incentive program to provide direct assistance to companies exploring EO

Thank you for being part of our historic first event!!!





Road shows will be hosted by MassCEO in each of the MOBD regions w/partner chambers, REDO's, and local economic development organizations

- Tentative Schedule
 - Greater Boston (Cambridge)
 - Western March 2025
 - Central April 2025
 - Southeast May 2025
 - Northeast June 2025
 - MetroWest July 2025
 - 5 virtual events, Dates TBD





The ESOP Association (TEA)

• Member since Spring 2024

Employee Ownership Expansion Network (EOX)

• Member since November 2024

National Center for Employee Ownership (NCEO)

• Member since January 2025

<u>US Federation of Worker Cooperatives</u> / <u>National Cooperative Business</u> <u>Association</u>

• Joining both in March 2025

MassCEO - Raising Awareness of Employee Ownership Models



MassCEO is EO model agnostic

- The Center strives to support businesses exploring all forms of EO, the most popular of which are ESOPs, Co-ops, and EO Trusts
- The Center will host informative virtual events on these models and other EO topics

Employee Stock <u>Ownership Plan (ESOP)</u>

- Using a combination of financial institution and seller financing, all or a portion of a business is sold to the ESOP, which is a retirement plan.
- Each year, shares of company stock are given to the employees via a deposit into their retirement account.
- The value of stock in an employee's account is determined by a valuation of the business which establishes a new stock price each year.
- When an employee leaves the company they can receive a payout of their ESOP account balance.
- Businesses with more than 30 employees and net profits of \$1.5 million are the best candidates for implementing an ESOP as a buyout strategy.

Worker Cooperative

- Using a combination of financial institution and seller financing, as well as a small buy-in amount by the employees, normally 100% of a business is sold to the cooperative.
- A "one share/one vote" system allows employees to elect the board of directors and make other corporate decisions allowing for a more democratic/collective governance than ESOPs or EOTs.
- Wealth is created for worker owners by the sharing of profits which is determined by the board and sometimes by the worker owners.
- Profitable businesses with more than 5 employees are good candidates for implementing a worker cooperative strategy.

Employee Ownership <u>Trust (EOT)</u>

- Using a combination of financial institution and seller financing, all or a portion of a business is sold to an Employee Ownership Trust (EOT) which is a type of perpetual trust.
- The employees are the intended beneficiaries of the trust and in addition to the corporate mission, the company is run with their well being in mind.
- Wealth is created for employees through the sharing of profits each year.
- Profitable businesses with more than 5 employees are good candidates for implementing an EOT as a buyout strategy.



www.mass.gov/massceo

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Featured ESOP Company: PCA Design





Dan Carp – PCA Design

Over the course of nearly 23 years with PCA, Dan Carp has carved a role as PCA's Renaissance Man. With experience leading finance, administrative, marketing, and information technology initiatives, Dan has blended an interest in the arts and technology to support those better skilled at designing sustainable buildings that will stand the test of time. As a member of PCA's senior leadership, Dan serves as a tireless cheerleader for the firm's culture and attributes his longevity at PCA to a shared passion for serving community both internal and external.



Building Community

An ESOP Case Study





Pitcher

Drummer

Drone operator

Dan's Roles in PCA Culture

PCA



PCA founders Wendy Prellwitz & David Chilinski

Northeastern University: Stetson East Dining





Growth from 1980's through early 2000's

Legacy Place, Dedham



Architecture, interior design, & planning firm founded in 1982 by Wendy Prellwitz & David Chilinski

> Focused on creating "places for people", bringing lasting value to communities

Firm **Overview**

PCA



Arsenal Yards, Watertown



The Revolution Hotel, Back Bay

The Abbot Building, Cambridge

Founded as an S Corp

ESOP established in 2010 with initial 25% ESOT purchase

> Currently 84% ESOT owned

Target 100% ESOT ownership

Ownership Transition

PCA





2024 Firm (we outgrew our staircase)





Celebrating 35 years with PCA clients

Project budgeting spreadsheet

Ζ	В	С	E	F		н	1
1				Date >>>			
2	SCHEMATIC	Rate	Hours	Fee	W1	W2	W3
3	Totals		0	\$0	0	0	0
4	Alena Parunina	\$	0	\$0			
5	Alex Brownell	\$	0	\$0			
6	Amanda Mersereau	\$	0	\$0			
7	Andrew Quinn	\$	0	\$0			
8	Ben Wakelin	\$	0	\$0			
9	Betsy Cooke	\$	0	\$0			
10	Brian Balise	\$	0	\$0			
11	Dave Snell	\$	0	\$0			
12	David Chilinski	\$	0	\$0			
13	David Deitch	\$	0	\$0			
14	DiAnn Tufts	\$	0	\$0			
15	Emeline Gaujac	\$	0	\$0			
16	Eric Brown	\$	0	\$0			
17	Frank Smith	\$	0	\$0			
18	Hing Fung	\$	0	\$0			
19	Janine Byrne	\$	0	\$0			
20	Jeff Gannon	\$	0	\$0			
21	Jessica Coyle	\$	0	\$0			
22	Jim Coveno	\$	0	\$0			
23	Juhi Goel	\$	0	\$0			
24	Keith Jones	\$	0	\$0			
25	Kevin Nastasia	\$	0	\$0			



PCA leadership team "Day Away"

Building community beyond our walls



Focus on relationship success

Growth of future leaders

Information transparency

Culture & community

Tenets of PCA ESOP Success

PCA





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Featured Co-op Company: Broadway Bicycle





Ace Young – Broadway Bicycle School

Ace Young has been a bicycle mechanic for two years at Broadway Bicycle School. They are passionate about reducing our reliance on fossil fuels and personal automobiles and spreading the joy of cycling. Ace is also heavily involved with Somerville Bike Kitchen, a cooperatively run non-profit that runs a DIY bike repair space in Union Square. They are a proud all-season bike commuter and iced coffee drinker.

Broadway Bike School: worker-owned since 1972

Little intro about me!

- Wrenching on bikes unprofessionally since 2019, went pro in 2021, started at Broadway in 2023
- Learned how to ride as an adult!
- Also involved with consumer/community bike cooperatives in the area (mainly Somerville Bike Kitchen and CommonWheels, and sometimes BU Cycle Kitchen)



Getting Started...



Bicycle Repair Collective storefront, early 1970s. Courtesy Harriet Fell. Photograph by Sheldon Brown. Finison, Lorenz J. 2019. Boston's Twentieth-Century Bicycling Renaissance : Cultural Change on Two Wheels. Amherst: Bright Leaf, an imprint of University of Massachusetts Press.

The Seven Cooperative principles!!

- 1. Open and Voluntary Membership
- 2. Democratic Member Control
- 3. Members' Economic Participation
- 4. Autonomy and Independence
- 5. Education, Training, and Information
- 6. Cooperation Among Cooperatives
- 7. Concern for Community

Good history blurb on https://ncbaclusa.coop/resources/7-cooperative-principles/

The Co-op model is a tool for building the world we would like to live in...



Adapting to change!

1978: Classes...potentially save the shop...

1982: Changed name to Broadway Bike School





Source: An Encyclopedia of Radical Helping



Obligations towards coworkers, towards customers, towards the community







Even more change!





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Ili Spahiu – SBA Massachusetts District

Ili Spahiu, Deputy District Director joined the SBA Massachusetts District Office in June 2015. He is a seasoned and highly skilled financial professional with extensive experience in commercial lending. Ili started his professional career in retail lending, as a residential mortgage originator and transitioned to commercial lending and later financial planning. He brings a wealth of knowledge from the private sector having worked for various banks, credit unions and alternative lenders. Ili is charged with the task of expanding the network of SBA lending institutions and strengthening the SBA strategic partner network. He earned his BA in Public Administration from Clark University and a Master of Science in Finance degree from Graduate School of Management at Clark University



U.S. Small Business Administration



Powering the American Dream

Massachusetts District Office 10 Causeway St. Suite 265 Boston, MA 02222

Our Mission: Supporting small businesses for over 70 years



The U.S. Small Business Administration makes the American dream of business ownership a reality.

We empower entrepreneurs and small business owners with the resources and support they need to start and grow their businesses and help with recovery nationwide after a disaster.

Created in 1953, the SBA is the only go-to resource and voice for small businesses backed by the strength of the federal government.

How We Help: Four areas supporting success

The SBA is the **go-to resource** for access to capital, valuable resources, business know-how, and the right expertise for **every stage** of your business lifecycle.



Free business counseling



SBA guaranteed business loans



Home & business disaster loans



Federal government contracting

The SBA Resource Partner Network

Access the right tools at the right time—wherever you are.



Approved and funded by the SBA



1,400+ partner offices nationwide



Find local resource partners near you at SBA.gov/local-assistance



Small Business Counseling

The SBA powers partners to provide one-on-one mentoring, classes and online advising for every stage of your small business growth and development:

- ✓ Little to no cost advice targeted on your needs
- ✓ Multiple locations around the nation
- ✓ Guidance for expansion via international trade


Traditional SBA Loan Products



When Do Lenders Use the SBA Guaranty

- New Ownership/Business Acquisition
- Start-up or certain types of businesses
- Collateral may be inadequate to meet normal underwriting
- Longer maturities are needed
- Mitigate risk exposure
- Lender's legal or policy limit
- Business leverage
- Business Expansion
- Projections based cash flow





Role of SBA's Guaranty



Lenders are comfortable making loans without SBA's Guaranty

SBA Financing Options for ESOPs and Co-ops

- □ The Main Street Employee Ownership Act of 2018, signed into law on August 13, as part of the John McCain National Defense Authorization Act revised § 7(a)(15) of the Small Business Act ("the Act") for loans to qualified employee trusts ("ESOPs") in several ways:
- □ It made it easier for employee-owned firms (both ESOP and employee-owned cooperatives) to access SBA financing already available to other small businesses;
- 7(a) loan can be made to the trust OR to the employer small business to re-lend to the ESOP to acquire at least 51% of the employer small business (the terms of the loan to the ESOP don't need to match the terms of the SBA-guaranteed loan;
- Eligible uses of proceeds may include any transaction costs associated with purchasing a controlling interest in the employer (Employee Stock Ownership Plans and cooperatives), but not costs associated with setting up the ESOP or cooperative.
- □ For both ESOPs and cooperatives changes of ownership, any seller who remains an owner of the business, regardless of percentage of ownership, must provide their guaranty.

SBA Financing Options for ESOPs

- SBA may assist a qualified employee trust (or equivalent trust) that meets the requirements and conditions for an ESOP prescribed in all applicable IRS, Treasury, and Department of Labor regulations. 13 CFR §§ 120.350 120.354
- SBA may guarantee a 7(a) loan to an ESOP for two purposes:
 - i. Purchasing a controlling interest (at least 51 percent) in the employer small business; or
 - ii. Purchasing qualified employer securities. The employer small business may use the funds received from the purchase of the qualified employer securities for any general 7(a) purpose.
 - iii. In the case of either i. or ii. above, the small business concern must be a coborrower on the 7(a) loan.

SBA Financing Options for ESOPs

- □ The IRS prohibits ESOPs from guarantying a loan; therefore, SBA does not require the ESOP to guarantee the loan.
- Members of the ESOP are not required to personally guarantee the loan, however owners of the Applicant who hold an ownership interest in the small business outside the ESOP are subject to SBA's guaranty requirements.
- □ SBA may guarantee a 7(a) loan to an eligible employer small business for the sole purpose of making a loan to a qualified employee trust (ESOP) that results in the qualified employee trust owning at least 51 percent of the employer small business concern.
- Transaction costs associated with the purchase of the controlling interest by the ESOP or equivalent trust may be included in the use of proceeds, but any transaction costs associated with setting up the ESOP may not be included in the use of proceeds.
- If the seller of the employer small business remains as a partial owner, the seller must provide a full, unlimited guarantee regardless of percentage of ownership.
 Note: This is a statutory requirement and cannot be waived.

SBA Financing Options for ESOPs

- □ 7(a) Participating Lenders may process loans to an ESOP or to an eligible small business owned or controlled by an ESOP under delegated authority.
- ESOP Trust must be in compliance with IRS, Treasury, and the Department of Labor requirements.
- □ The application cannot be structured as an EPC/OC. (13 CFR § 120.111(a)(6)) SBA regulations require each 20% or more owner of the EPC and each 20% or more owner of the OC to guarantee the loan, and the regulation does not provide for an exception.
- □ Loans to ESOPs for the purpose of purchasing a controlling interest (at least 51 percent) in the employer small business are not subject to the requirement for equity injection.

SBA Financing Options for Coops

The Main Street Employee Ownership Act of 2018, signed into law on August 13, as part of the John McCain National Defense Authorization Act added new § 7(a)(35) to the Act to provide the Administration with the authority to guarantee <u>loans to cooperatives ("Co-ops"</u>) for the purpose described in 7(a)(15) of the Act, including:

- □ For 7(a) only: SBA may guarantee a loan to a cooperative to purchase a controlling interest (51% or more) in the employer small business
- Eligible uses of proceeds may include transaction costs associated with the purchase of the controlling interest, but not costs associated with setting up the cooperative, may be included in the use of proceeds.
- □The Seller may remain an officer, director, or key employee of the small business concern when the Co-op has acquired 100% of the ownership;
- Any Seller who remains must provide a personal guaranty, regardless of any ownership %; and
 Provides the Administrator with <u>the discretion</u> to not require mandatory equity injections from a Co-op.

SBA Financing Options for Coops

- □All Applicants operating under a cooperative structure must meet SBA's eligibility requirements.
- □SBA Lenders may not process loans to a cooperative or to an eligible small business owned or controlled by a cooperative under delegated authority.
- Each loan must be guaranteed by at least one individual or entity.
- The applicant must submit to SBA Lender supporting organizational documents and agreements as applicable with the loan application depending on the type of cooperative and the purpose of the loan.
- Documents required: Cooperative Agreement; Organization documents; Articles of Incorporation/Organization; Bylaws; Operating/Conversion/Redemption/Membership Agreement(s); or any other agreements applicable/necessary.



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Questions?



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Thank you for attending!!!

Please help us improve the program by providing feedback:



https://forms.office.com/r/WpG0AHwDuh