



July 30, 2020

Community Wealth Builders **strongly supports** Council Bill 19-0452, *Employee-Owned Businesses – Reporting*.

This bill is critical since it promises to raise awareness of such an important type of economic entity: employee-owned businesses. In fact, as COVID-19 continues to wreak havoc on our city's economy, this type of business is now more important than ever to catalyze and grow in Baltimore City. As detailed below, employee-owned businesses not only have lower failure rates and higher revenues than traditionally-structured businesses, but also pay higher wages, offer better benefits, and have happier workers. Especially critical in Baltimore, by involving employee-owners in business decisions and sharing revenues among all workers, employee-owned businesses also provide asset-building opportunities and empowerment—key building blocks for breaking generational poverty.

Community Wealth Builders has been working on the ground for the past seven years to help promote this model. As demonstrated in other cities across the country, local government programs and policies can play a major role in boosting and expanding employee-ownership.

More specifically, employee-owned businesses play a critical role in building community wealth for several key reasons:

- They create quality, empowering jobs. Wages are typically above market rates with benefits, and each employee's ownership stake in the business enables him/her to accumulate wealth and build assets, a critical factor in reversing the generational poverty so common in many of Baltimore's neighborhoods. Underscoring this point, a May 2017 study conducted by the National Center for Employee Ownership (NCEO) found that employee ownership results in markedly higher median household net wealth, greater access to benefits at work (e.g., sick leave, vacation time, etc.), and a greater sense of job security.

Particularly relevant to Baltimore, the report also found that employee-owners of color had a significantly higher income from wages, a greater net household wealth, and higher median tenure in their current job than workers of color in non-employee-owned businesses.ⁱ

- Since employee-owned businesses have greater productivity and growth, and lower failure rates than traditionally structured businesses, they are ideal enterprises to help stabilize and strengthen neighborhood economies.ⁱⁱ
- Since most workers are community residents, employee-owned businesses are more likely than other businesses to employ sustainable business practices that do not harm the local environment, and profits are more likely to remain and circulate within the community.

Also relevant to the Baltimore context:

- Employee-owned businesses have been an effective tool in cities across the nation to provide quality, empowering jobs to people, such as returning citizens, left out of traditional economies. In a city where more than 60 percent of formerly incarcerated people are unemployed one year after release, and where those who succeed in finding employment earn 40 percent less pay on an annual basis,ⁱⁱⁱ worker-owned businesses could play an especially important role in fostering increased economic activity and community wealth.
- A growing area of opportunity involves conversions of family-owned businesses to employee ownership as the Baby Boom generation retires. Nationally, Baby Boomers own almost half of all small businesses with employees, and these 2.34 million companies collectively have payrolls of \$949 billion and employ 24.7 million people. Only 15 percent of these businesses are likely to have family heirs, and it is well known that many businesses seeking to sell will be unable to do so. This could be especially true in the coming decade, as the retirement of the Baby Boom generation creates conditions where there are likely to be more business sellers than buyers—conditions that suggest the possibility of a depressed market for business valuation.^{iv} According to the U.S. Census Bureau, in 2015 Baltimore had 12,451 businesses with 295,000 employees and payrolls of \$17.7 billion. Assuming Baltimore fits the profile of the nation, at least 100,000 people work for one of approximately 6,000 Baby Boomer-owned businesses with a combined payroll in the billions.^v Converting just five percent of these businesses to employee ownership would preserve 5,000 jobs.

Please do not hesitate to reach out if you have any questions about this testimony or employee ownership more generally (sgeller@communitywealthbuilders.org; 443-242-

4110). Again, since growing this type of business is now more important than ever, I **strongly urge Council Members to vote favorably in support of this bill.**

Respectfully Submitted,



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ⁱ National Center for Employee Ownership, *Employee Ownership & Economic Well-Being*, Oakland, CA, 2017, https://www.ownershipeconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf, accessed September 5, 2017.

ⁱⁱ For more details about the economic benefits of worker-owned enterprises, see The Surna Foundation, *Ours to Share: How Worker-Ownership Can Change the American Economy*, New York, NY, March 2016, <http://www.surdna.org/images/pdf/OursToShareWeb1.pdf>, accessed September 5, 2017.

ⁱⁱⁱ Society for Human Resource Management, *Background Checking—The Use of Criminal Background Checks in Hiring Decisions*, 2012, and Bruce Western, *Collateral Costs*, Washington D.C.: The Pew Charitable Trusts, 2010.

^{iv} Project Equity, *The Small Business Closure Crisis*, Oakland, CA: Trust for Conservation Innovation, 2017, <http://www.project-equity.org/wp-content/uploads/2017/05/National-Small-Business-Closure-Crisis-1.pdf>, accessed August 19, 2017.

^v United States Census Bureau, *Quick Facts: Baltimore (City), Maryland*, Washington, D.C.: U.S. Dept. of Commerce, 2016, <https://www.census.gov/quickfacts/fact/table/baltimorecitymarylandcounty/AGE295216>, accessed August 19, 2017.