



COOPERATIVE DEVELOPMENT INSTITUTE
The Northeast Center for Cooperative Business

Testimony in support of LD 1276 – An Act to Create and Sustain Jobs and Affordable Housing through the Development of Cooperatives and Employee-owned Businesses

By

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Before the Committee on Taxation

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Senator Grohoski, Representative Perry, and members of the Committee, my name is Rob Brown, I am the director of Business Ownership Solutions at the Cooperative Development Institute (CDI), and I am testifying in support of LD 1276, An Act to Create and Sustain Jobs and Affordable Housing through the Development of Cooperatives and Employee-owned Businesses.

CDI supports LD 1276 because it is a targeted, cost-effective strategy to preserve and grow jobs, businesses and affordable housing in Maine.

CDI is a nonprofit and the USDA-designated Cooperative Business Development Center for the Northeast. In my work at CDI, I work with business owners and their employees to design and execute transitions to employee ownership as an exit plan for an owner or a growth strategy for the business. Additionally, I lead programs at the local, regional, and national level, in partnership with many public, private and nonprofit entities, to educate and advise business owners on the exit planning process and their options.

The business ownership succession crisis, dubbed nationally as the “Silver Tsunami”, looms largest right here in Maine. The average age of business owners nationally is 50 years old, but in Maine it’s 60. Research by University of Southern Maine School of Business estimated that Maine has 12,790 small businesses, employing 108,000 workers, where the owner wants to retire in the next several years, but most don’t understand the exit planning process or options and only about 15% have a documented exit plan. Too often, the default option ends up being liquidation and closure. One recent study in Massachusetts shows that for every business that sells, nine liquidate and close.

And in the wake of the shock and stress of the Covid-19 pandemic on businesses, all evidence points to a rapid acceleration of aging owners who, already thinking about how to retire before the pandemic, feel like they dodged a bullet and want to develop a plan now.

Maine's agriculture sector faces the same "Silver Tsunami". Up to 400,000 acres of farmland in Maine will soon change hands, and most farmers over the age of 65 do not have identified successors.

And the future stability of affordable housing options is similarly threatened. Maine has over 600 manufactured housing parks that are home to an estimated 30,000 households, many of them young families, seniors, and people with disabilities. This is the largest source of unsubsidized affordable housing in the state. Most of these parks are mom-and-pop operations, but as those local owners age out, the parks are being scooped up by absentee investor-owners from out of state. In fact, in 2020, 70% of MHPs that sold in Maine were bought by out-of-state real estate speculators.

Cooperative and employee ownership offers a hopeful alternative to the loss of jobs, businesses, farmland, and affordable housing across the state. LD 1276 efficiently and effectively addresses these threats in several ways:

1. First, it would exempt the sale of any business, farm, manufactured home park, or rental property from state income taxation if sold to a cooperative or employee-owned enterprise, including consumer, producer, resident or worker cooperatives or Employee Stock Ownership Plans (ESOPs). This provision not only incentivizes consideration of this option, it creates negotiation room on the sale price.
2. Second, it would make interest income earned from financing these conversion transactions tax exempt for sellers and Maine-based lenders. Again, this provision not only incentivizes consideration of this option, it creates negotiation room to increase seller-financing and lower the interest rate of that financing.
3. Third, it would establish the Maine Employee Ownership Center to expand education and training opportunities, technical assistance, and awareness of these incentives for business owners and workers interested in pursuing employee ownership.

In the interest of time, I would encourage committee members to read the [Maine Policy Review, Volume 30, Issue 2](#), for my article detailing the extensive research on the benefits of employee ownership for businesses, workers and communities. In short, compared to conventionally owned businesses, employee-owned businesses are more profitable and productive. Employee-owned businesses create more jobs in the good times and lay off fewer workers in downturns, they attract and retain more young workers, they invest more in workforce training, and their workers have far greater retirement savings and household wealth.

The Mills administration, in partnership with hundreds of business, nonprofit and civic leaders, developed an ambitious ten-year Maine Economic Development Strategy. That strategy and its priorities include helping businesses grow, be more productive, create more and higher paying jobs, invest in skills training and retain and attract more young workers. As the research shows, all these priorities can be advanced by supporting and promoting employee ownership transitions.

This economic and community development strategy is not new or untested:

- Eight states have various tax incentives for mobile home park owners to sell to their residents.
- 18 states have established Employee Ownership Centers, with varying levels and types of public support, to provide education, training, and technical assistance for businesses considering employee ownership.
- Iowa, Missouri, Massachusetts and other states provide a variety of tax incentives and direct funding to businesses to explore and assess the feasibility of selling to workers.

At the federal level, the IRS 1042 Rollover has been in place for nearly 40 years and provides a substantial tax incentive for the sale of a C Corporation to its employees through an ESOP or a worker cooperative. However, the fact that its use is limited to C Corps, combined with the cost and complexity of utilizing it, means the vast majority of Maine businesses could never benefit. LD 1276 provides a benefit for Maine's small business owners that would go a long way toward leveling the playing field.

Also at the federal level, starting in 2024, the federal government will provide grants to states to expand employee ownership education and technical assistance programs. States that have established Employee Ownership Centers will be first in line to get these federal grants.

Lastly, this exact same bill, and the issues it seeks to address, was studied and debated for 2 years by this very committee in the 129th Legislature. The Taxation Committee at that time ultimately voted Unanimous Ought To Pass, the house and senate both voted unanimously to pass, and there was bipartisan support in the Appropriations Committee. Unfortunately, by that time it was March of 2020, and the legislature shut down and anything that was not already in the budget or covid-related emergency legislation died.

LD 1276 will go a long way toward creating and preserving jobs in our more economically distressed regions, attracting and retaining more workers in our more prosperous regions, expanding affordable housing and our food economy, and strengthening local ownership and control.

Without question, cooperative and employee ownership delivers material benefits to and improves the economic health of workers, families and communities. LD 1276 would be a strong incentive to expand this beneficial business ownership model for many more Mainers.

Thank you for your consideration and I welcome your questions.

-Rob Brown, Director, Business Ownership Solutions, Cooperative Development Institute
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