

Tim Garbinsky ([00:00:07](#)):

Hello everybody. And welcome to the National Center for Employee Ownership's Community Conversation series. We're going to get started momentarily. We're going to give everyone a moment to sort of get situated in this virtual zoom room so that everyone can enjoy the full presentation. But thank you very much for being with us here today, this Wednesday in the event that any of you end up getting disconnected and you'd like to rejoin, but cannot I'd like to let you all know that this is also going to be streaming on YouTube. The link should be accessible from the exact same place. You found this original zoom link on nceo.org. So you can, you can find it there. If you have any issues, please feel free to give us a call at (510) 208-1300. Or send us an email at customerservice@nceo.org. So again, welcome to the National Center for Employee Ownership's Community Conversation series. This is the very first in what we hope will be a long and fruitful series that will focus on sort of up-to-the-minute timely topics that affect employee ownership in myriad ways.

Tim Garbinsky ([00:01:18](#)):

This very first one is, as you all know on how employee ownership may or could or should fair in this new administration at the time of great political change. And of course, employee ownership won't be unaffected by it we'll be indeed affected by it in some way, shape, or form. And so we've assembled a panel of experts to discuss what that might look like. Before we go any further, I'll introduce myself. I'm Tim Garbinsky, I'm the communications director at the National Center for Employee Ownership. I'm joined today by my esteemed colleague executive director of the NCEO, Loren Rogers, also a board member and principal at McDermott Will and Emery, Ted Becker. The founding executive director for the Democracy at Work Institute, Melissa Hoover. And the executive director of the Employee-owned S corporations of America or ESCA Noelle Montano. so without further ado, I would love to go ahead and begin this conversation in earnest. Just to start us off here and Loren, I'll direct this question to you and then we'll sort of round-robin it, but when it comes to legislation during the Biden Administration, what would be your top priority?

Loren Rodgers ([00:02:38](#)):

Well, thanks, Tim. And I just want to join you in thanking Melissa and Noelle and Ted for joining us and for all of you for being online for this, our first Community Conversation webinar, we're looking forward to doing a lot of these. I'd see the priority for legislation in this session is being taking advantage of. What's a pretty amazing moment. We've seen an amazing, destruction and disruption of business it's caused a lot of potential for change. I think we'll see a lot of new businesses created once the - we're in the kind of the post-pandemic world. So I think there's a pretty good chance of there being an inflection point during the next several years. Not only because of all the economic changes, but because some parts of our economy are just being explicitly questioned in a way right now that they haven't been before.

Loren Rodgers ([00:03:28](#)):

We're asking questions about whether public markets deserve to have as large a role in our economy as they do and people from the left and the right are making some, raising some of those questions were, we've also seen some very scary graphs about the trends and wealth and income in the United States. And we've seen that the especially drastic for people in, in specific demographic groups the economic outcomes for people of color in this country have been far worse than for other people in this economy and all of these trends and make this kind of a moment where change, I believe is possible. One of my own personal goals as the executive director of the NCEO is that you don't know what my own personal

politics are. We are not a lobbying organization. Our point is to promote employee ownership, and there are people on all sides of the spectrum who do that.

Loren Rodgers ([00:04:22](#)):

So I want you to hear what I'm saying here, not as being on one side or the other, but just expressing the hope that this inflection point could will mean that we ought to have very high hopes for the time of the Biden Administration. I think the Biden Administration has shown not only that it's in this moment of, of economic potential of inflection points, but many of its appointees. And we'll talk about some of these are people who have experience with employee ownership and effectively promoted employee ownership from Marty Walsh for labor to Gina Raimondo in the commerce department, Isabel Guzman at the Small Business Administration, Neera Tanden at the ONB. So all of these things, plus the close balance in power in Congress, may be a reason for people on both sides of the aisle to look for ideas that are both bold and centrist. And I think employee ownership has a lot of potential to fill that role.

Loren Rodgers ([00:05:19](#)):

The last point I want to make about this legislative moment before turning it over to the other panelists is that there is great and powerful research prominent policy positions right now. Of course the Democracy at Work Institute has done fantastic work on the worker cooperative front here. ESCA has done some great studies. And I know Noelle's going to speak about that. The Rutgers University has gathered at a center of academic excellence together on employee ownership. The ESOP Association has published some great research on how companies have come through the COVID crisis recently, and I'm especially proud of what we at the NCEO have done at [Ownershipconomy.org](#). has some of the research that, that our research department has done, which found among other things that employee owners have about 92% greater net household wealth. I think all of that research speaks perfectly to the inflection point. We could well be in right now.

Tim Garbinsky ([00:06:16](#)):

Thanks for that, Loren. Before I turn it over to Noelle to answer the same question, I do want to point out that we warmly welcome any questions from the participants. I forgot to say that earlier there is a Q&A function here. So by all means, use it liberally and I'll pepper in those questions where appropriate. But now back to our regularly scheduled panel, Noelle, if you could take up the same question.

Noelle Montano ([00:06:39](#)):

Thank you, Tim. Well, to compliment Loren's very broad macro view. I can provide ESCA as micro view. We have been working on the promotion and expansion of private employee ownership act for about five congresses. Now it's a bipartisan bill. The major provision from the bill would extend the 1042 tax incentive to S-corporation owners selling to an ESOP. We made progress on this bill last Congress in late October, the leaders of the house ways and means committee chairman, Richie Neal, and ranking Republican Kevin Brady introduced what they called the Secure Act. And this is their comprehensive retirement savings bill. And they included our 1042 provision. This was a very big step for us, for the S-ESOP community. They do intend to re-introduce this bill. We're not exactly sure when they will do it. Things are really busy on the Hill right now with the COVID economic stimulus package.

Noelle Montano ([00:07:41](#)):

And of course that involves a lot of the tax writing committees work. So they will be looking to reintroduce this. Hopefully there will be a similar version of the retirement savings package also

introduced by Senate finance committee members, Rob Portman, and Ben Cardin. And I should mention, we will have our bill, the promotion expansion of private employee ownership act. Reintroduced in the house. Reintroduced in the Senate. We have a new Senate Republican lead and Senator Pat Roberts from Kansas, our long time lead. He retired at the end of last Congress. So we're thrilled that Senator Rob Portman is joining with Cardin. So the authors of the Portman Cardin retirement savings bill are now the authors of the S-ESOP Bill also.

Tim Garbinsky ([00:08:24](#)):

Thanks for that. Noelle. There's actually a question asking you to repeat what the act does vis-a-vis the S-corporation ESOPs.

Noelle Montano ([00:08:32](#)):

It would apply. It would allow S-corporation owners to utilize section 1042 tax incentive that only applies to C-corporation owners when they sell to an ESOP and roll over the gains from the sale to other securities and they don't have a tax obligation right away.

Tim Garbinsky ([00:08:47](#)):

Fantastic. Thanks for answering that Noelle. We're can move forward with Melissa with your perspective on the same question.

Melissa Hoover ([00:08:56](#)):

Okay, great, good morning. I'm Melissa Hoover from the Democracy at Work Institute, we focus primarily on the worker cooperative form, but have a broad approach. So I'll speak to some of the ways we're seeing legislation taking shape for worker co-ops and some of the agency level opportunities. So there is actually some continuity from the previous Administration for us there. We had more legislative activity in the last four years than we had prior to that. So sort of, you know, interesting to see these threads there are a couple pieces of pending legislation that tuck worker cooperatives in Senator Cortez-Masto from Nevada has a community development focused bill that mentions worker cooperatives. And then Senator Adam Smith from Washington has a workforce development bill that also mentions worker cooperatives. I don't have the names of those bills and can follow up after the webinar.

Melissa Hoover ([00:09:55](#)):

And then just recently on our radar as a small business succession planning act, which should very logically include some form of employee ownership supports. So we'll be working on, on those things, they're modest. I think, you know, more generally we'd like to see cooperative ownership forms and shared ownership forms generally supported in multiple agencies. Right now cooperatives live only in the USDA a legacy of the sort of agricultural past and present of the cooperative form. And then we've, you know, most recently with the Main Street Employee Ownership Act seen cooperatives and ESOPs become sort of a priority at the SBA, but we can talk a little bit more about that later where we're seeing some opportunity interestingly, is that the Department of Labor (DOL) in part, because Marty Walsh from Boston who's familiar with employee ownership looks to be the Labor Secretary, I think as significantly for us, Julie Su from California, the California Secretary of Labor looks to have a deputy position in the Department of Labor and is very interested in and supportive of worker cooperatives.

Melissa Hoover ([00:11:08](#)):

You know, I understand the DOL has a sort of a regulatory history with ESOPs or has taken a regulatory approach more than an enabling approach. And I think, you know, we would hope to shift that. I think one thing that's important to understand some of the language we're hearing out of the Department of Labor and the sort of the request for briefs that they've put out as part of the transition really focuses on a larger kind of workforce strategy for marginalized workers. So as much as a small business strategy is less a small business strategy and more workforce strategy for people who are locked out of good jobs. So gig workers, staffing, cooperatives, secondary cooperatives for micro businesses and entrepreneurs of necessity. So we'd like to take that opening and support that, but sort of push in a slightly different direction, which is to say help the Department of Labor understand and dedicate resources toward layoff aversion to, to see business retention as layoff aversion and to use WIOA training money and sort of the, the entire workforce infrastructure to retain small businesses, not just to retrain workers, who've lost their jobs when businesses go out of business, but to take one step back and say, how do we make sure they don't go out of business?

Melissa Hoover ([00:12:35](#)):

So that's sort of, you know the, the shift that we hope to make with the DOL, a couple other things worth mentioning, and these are a little bit kind of moonshots. One is our understanding of the need for private equity or equity like capital within the financing ecosystem for worker co-ops and worker ownership more, more broadly. There's been some talk about using the SBIC the Small Business Investment Corporation, maybe the CDFI infrastructure, the Community Development, Finance Institutions, although those are really sort of designed for lending and what we see as a need for an equity instrument to buy and hold businesses and exit to employees and whatever way it makes sense. So we're looking right now at sort of what agency that might live in and what the vehicle might be and begin to design a campaign around that.

Melissa Hoover ([00:13:28](#)):

And then finally we like a multi-agency initiative something like the healthy foods financing initiative, which looked at food deserts and said, let's leverage the USDA treasury for financing you know and bring sort of multiple agencies together to address a broad social issue like food access. So if we think of access to good jobs and small business ownership as a similar kind of issue, but should have a multi-agency initiative, we're going to be pushing for a strong local economies initiative, which looks like maybe USDA since that's where cooperatives have lived. Maybe labor. Maybe HUD for community development. Maybe commerce for treasury for, for, for financing. So that's again sort of a very early stage idea, but I think could be a place where worker cooperatives in the ESOP community collaborate on on enabling legislation.

Tim Garbinsky ([00:14:35](#)):

Thanks for that, Melissa. There's a ton of great questions coming in in the Q&A and in the chat, and I'm definitely going to get to them. But first I want to ask a question of Ted which is what are the chances that a grant program bill in, in your mind, what are the chances of grant program bill will reintroduced?

Ted Becker ([00:14:53](#)):

Well, I don't know. Senator Ron Johnson introduced this and then I believe Senator Tammy Baldwin joined on last year and the intent was to make it part of the second COVID relief act and to get it passed and, and operational really fast that didn't happen. And so I don't know if there's going to be an attempt to reintroduce it, but I will say it was an interesting bill because it had to do with grants rather than sale

of stock to the ESOP or to employees. And that would eliminate some of the criticism of the Department of Labor as to the price that selling shareholders sell shares to the ESOP. It's not a way for selling shareholders to sell their way out of the company as a way for this company to issue more stock and then have an ownership component.

Ted Becker ([00:15:58](#)):

Part of the problem in my personal opinion with that bill is that it was cobbled together so quickly. And that I think it, it, it needs a lot of work. And I think that probably any of our organizations would be happy to to give our input the kinds of things that might improve that particular bill because I, I think it had some, it had some real problems and of course as Noelle knows better than anybody else. If you have a half baked bill and I'm not being critical of it, but, but you know, something that hasn't been fully vetted even with you know, congressional staffers the chances of the bill advancing are slim. And if it does get passed there's going to be a lot of possible defects with the need to be ironed up through mandatory legislation or regulation. So I hope that people continue to consider a grants program, but I think that if it's going to be done in the legislation, that there needs to be a lot more groundwork.

Tim Garbinsky ([00:17:14](#)):

Yeah. Fair answer there, Ted. Thanks for that. Keeping along some of the same lines that some of our attendees are sort of hitting on in the questions the, the NCEO, as I think everyone would probably know we're a membership non-profit, we don't lobby, so we're not we're politically attuned, but not necessarily politically involved in the same way. And there's a, there's a question here that I want to address first to Noelle and then to Melissa to see if she has any color she'd like to provide. It says while it is heartening, that support for employee ownership is bipartisan. The US is accumulating massive deficits as it funds necessary, stimulus packages. What are your worries of employee ownership being caught up in budgetary cuts to reduce deficit and what would be most at risk and what can we do to protect employee ownership? So Noelle, if you'll take that first.

Noelle Montano ([00:18:05](#)):

Thanks, Tim. That's a great question because that's really why ESOP, why ESCA exists is to protect the S-ESOP structure, no matter what federal policymakers are dealing with ESOPs always need to be vigilant. We're a creature of the tax code. The minute Congress creates us, they could do something, whether it's inadvertent or whether it's intentional to change the models, scale back the benefits, any thing can be done. And I know we're going to touch a little bit on Biden's tax proposals and how that could impact us, but anytime you're opening up the tax code, dealing with massive deficits, dealing with new spending programs, Congress needs revenue. Sometimes they feel like offsetting tax bills. Sometimes they don't feel like it, but we know we're at risk. And that is why we've spent 20 years building up significant political support for the model. I mean, that's what we do.

Noelle Montano ([00:18:58](#)):

Our aim is to look at the playing field, see what could be done, inadvertent things happen all the time. I mean, during tax reform, when David Camp was the chairman of the Ways and Means Committee, he had an idea about let's compress all pass through structures into a new K-Corp. We had to go to a ways and means committee stuff. You have no S-ESOP if you have no S-Corp anymore. So things like that are going to happen. So really what we can best do is to be vigilant. Our groups are looking out for things like this, and we need to continue building up support among the influential policymakers that can make a difference.

Tim Garbinsky ([00:19:36](#)):

Thanks for that Noelle. And then Melissa, then Loren and Ted would love if you have any color to provide there any additional insights you might have into the, sort of the fears around budgetary cuts and how they may impact employee ownership, status.

Melissa Hoover ([00:19:51](#)):

Yeah. so briefly I think two things on the one hand, we sort of have the opposite problem of Noelle and ESCA in that we don't have a designated form that can be protected other than the sort of the co-op form which is a little bit diffused. And so we are, in some ways the patchwork of support works in our favor, but our strategy has also been to tuck cooperatives and employee ownership writ large into existing infrastructure at the SBA, at DOL, at USDA and get in where we fit in. So I think we are less, those less defined and less vulnerable and maybe ultimately less powerful when it comes down to it because we don't have a single sort of area to crystallize around, but for now it feels okay and somewhat protected. And then, the second sort of dimensions to that is that cooperatives are designed to meet needs and we're in a moment of great need.

Melissa Hoover ([00:20:54](#)):

And so the case that we always make is that there's an urgency people need solutions that enables them to help themselves and cooperatives are that solution. So that actually has been resonating a lot for us. Like I said, we've gotten more traction in the last couple of years than in the decades before. So I think focusing on meeting material needs being a private solution that nonetheless can be fostered through government interventions is, is our approach that one of my mentors always says the, the challenge of cooperatives is to make it through the good times were very popular in hard times.

Tim Garbinsky ([00:21:38](#)):

Yeah. Thanks for that, Melissa. Yeah, I really, I like the idea of this sort of being a solution-based thing that can be done privately, but also with government intervention. I think that's one of the strengths of all the employee ownership forms, especially of course the worker co-op, ESOPs, All of them. Loren, I know you wanted to chime in on this as well, so please.

New Speaker ([00:21:57](#)):

Yeah, very briefly. I think I very much agree with what Noelle and Melissa just said. I think if we can make a really powerful case and we have done that, that ESOP's and employee ownership and worker cooperatives help the budget to the extent that jobs are an engine of federal and state tax revenue. And I think the more we can make that case more, we can make that sort of a given about what employee ownership does. The less, that question will come up about the risk of bad times.

Tim Garbinsky ([00:22:26](#)):

Ted please, by all means if you'd like to chime in.

Ted Becker ([00:22:34](#)):

I always like to chime in. I think that we need to add a consideration of the outlook of Secretary of Treasury, Janet Yellen into this dialogue because it's very interesting. She's been asked and was asked at her confirmation hearing what her outlook on tax cuts are obviously. And the, the position she's taken at least in the near term is that tax cuts are not something that they're going to be focusing on. Now I think

that it would be a false assumption to believe that this Administration will not focus on tax cuts, but the emphasis right now is the pandemic obviously. And it's also trying to get relief to all of the folks, frontline workers, and so many others who've lost their jobs who really need relief right now. So that's going to be the near term focus, but if you look at secretary Yellen's background, she's written, there's a fairly famous speech, also in 2014 that she gave which really focused on income inequality.

Ted Becker ([00:23:52](#)):

And so, you know, I think that she may return to that focus after she does a lot of triage, that's going to be necessary to deal with all of the crises, the economic crisis and the pandemic crisis that are here right now, which of course also has huge economic consequences, but I'm hopeful that, you know, maybe a year or two down the road into this Administration we're going to see the Secretary of Treasury refocusing on issues of income inequality. And of course that's the sweet spot for employee ownership, whether it's ESOPs or worker cooperatives or any other form of employee ownership. It's all about trying to deal with the, not just income inequality of course, but, you know, basically inequality between the worker and the and, and the companies or the you know, people who have, and the people who don't. So so that's something I think we've ought to keep on our radar as well.

Tim Garbinsky ([00:24:58](#)):

Absolutely. Thank you for writing that color about Secretary Yellen and we'll return to some of these topics a little bit later, we have a lot of questions to get through and I want to make sure we definitely address the ones that are coming from our audience. So definitely keep them coming in. If you do have a question, use the Q&A function, I'll just go through those in the order that they are now. Well, the top one is which influential members of Congress will be champions for it's an ESOP legislation, but I'm going to broaden it out and say ESOP and employee ownership legislation and I'll start that with you, Noelle.

Noelle Montano ([00:25:33](#)):

Right? Well, I mentioned our lead sponsors of the bill ESCA has been working on, or now Rob Portman and Ben Cardin in the Senate. We had 40 Senate co-sponsors on the bill last Congress. So, I mean, we focus on the Senate Finance Committee primarily, and the House Ways and Means Committee cause they're the tax writers. The bill was introduced in the house last Congress by Jason Smith, from Missouri and Ron Kind from Wisconsin. We expect there'll be the leads again. And just, you know, we try to build up again, support mostly from the tax writing committees, but we probably had about 50 house members also. So again, that's part of our playing off playing defense by playing offense. Our main goal is to ensure that the S-Corp model is not hurt. And by having members of Congress sign onto legislation that says we support more employee ownership more ESOPs we have that record going for us when we need to play defense and say, Hey, don't hurt us. So those are the members that we'll continue working with lots of new members to educate in a new Congress, but again, primarily focusing on the tax writing committees.

Tim Garbinsky ([00:26:39](#)):

Thanks for that Noelle. And then Melissa, if you'd like to highlight any of the members of Congress, I know you've done so in the chat, but if you'd like to, for our audience, anyone that you'd think would be champions going forward. Currently muted.

Melissa Hoover ([00:26:57](#)):

My apologies. Yeah, I'm not sure how influential, but I can, I can tell you some of our champions for employee ownership Senator Kirsten Gillibrand was a leader in early, early on before her run for president where you haven't heard a lot from her recently. But she really pushed Tammy Baldwin Senator Tammy Baldwin in Wisconsin has a strong relationship with the national cooperative business association. And Senator Cortez-Masto of Nevada is, is jumping in, I think, as newer to worker co-ops from a community development standpoint. In the House Representative Adam Smith's and Representative Ro Khanna from California have both been supportive Ro Khanna has picked up a piece of legislation that had, had previously been, I think, introduced by Keith Ellison and, and is moving that forward, a worker co-op development act.

Tim Garbinsky ([00:27:57](#)):

Great. Thank you for the info there. There's another question here that I think comes up a little later in the program, but I'll go ahead and push it up till now, since it's got so many up votes from our audience it says, do you see any opportunity for ESOPs? And again, I'm going to broaden this out wherever possible. Do you see any opportunity for ESOPs or employee ownership to be recognized and treated in the same way as DBEs or MBEs during this Administration? So that's Minority Business Enterprises, Diverse Business Enterprises. What have you I'll start actually with you there, Loren. I know you've had some thoughts around that and then I'll loop in the rest of the panel. But if you'd like to give us, get us started there.

New Speaker ([00:28:42](#)):

Sure. I don't have any particular reason to think that this Administration will be more effective at that than any prior Administration.

Loren Rodgers ([00:28:50](#)):

Although of course, I'd be delighted to be wrong in my mind, the primary issue, the one that needs to happen first before anything else is removing the, the difficult tension between those certification statuses and employee ownership. That's very true for ESOP's it's it's also true for co-ops. I think Melissa, you can speak to this. I think it's a little bit less of a, it's a shorter roadblock than it is for ESOPs, but there's a big tension. Whether if the owner of a company is a trust, whether that immediately disqualifies most businesses from claiming any sort of disadvantaged business status, minority-owned, women-owned, veteran-owned, anything else.

Tim Garbinsky ([00:29:34](#)):

Thanks for that. And then Melissa, I know, I know Loren just mentioned that. Of course it is very different. There's the absence of the Trust likely makes it a simpler, a far simpler prospect, but if you could speak to that as well.

Melissa Hoover ([00:29:48](#)):

Sure. I mean, we, haven't done a lot of work on this at the Federal level. But we are working at the local and state level in ways that I think could be informative. So in California, we're making the case that worker cooperatives aren't underserved business form, like MWBs. And then locally where particularly in New York city and potentially DC working on local procurement policies sort of that it, if not advantage worker owned forms at least sort of open up pipeline maybe for smaller kinds of contracts, since there tend to be smaller enterprises and we have supportive government in New York City. And so we want to use this moment and I think this may point to a broader kind of strategy we're interested in,

and I'm curious whether any other panelists have considered this or how you're considering it, which is this interplay between local state and federal government.

Melissa Hoover ([00:30:48](#)):

We find much stronger uptake. At the local level, we have really strong local champions in cities across the country, and then beginning to see some state level action, particularly in North Carolina and California. And I think that there are opportunities there to influence and start conversation. So again, to get in where you fit in strategy I know ESOPs, you know, to have much greater interest at the federal level, so it may not be applicable. But particularly in these times when the government is federal government is essentially going to have to, you know, deploy massive amounts of funding locally because cities and States are, are broke. I think that there are opportunities there to start discussions.

Tim Garbinsky ([00:31:36](#)):

Great. Thank you for that. I'm going to get back to some of our some of our other questions here. So returning a little bit to the tax code, which we touched on very briefly earlier just to dig in a little bit more on that one. What are the impacts that you suppose the Biden Administration's proposed tax changes will actually have on employee ownership? And I'll start there with you Loren, about what the changes in tax rates, how they might impact ESOPs.

New Speaker ([00:32:13](#)):

Sorry about that. So I think when it comes to looking at the tax rates and the impact on non-employee ownership and creation, one key piece is of course, the deferral of capital gains, which Noelle mentioned earlier, the higher the tax rate, the more incentive there is to avoid the tax. So the more the capital gains deferral is worth that applies the rollover of capital gains applies both ESOPs and cooperatives, in theory. And that's that's one clear impact.

New Speaker ([00:32:46](#)):

Another clear impact is to the extent that income tax corporate income tax rates go down that'll increase ESOP valuations and affect all existing ESOP companies. Higher capital gains rates would also, if it's connected to the tax reform under the Trump Administration, then it would, might also be connected with changes in the deductibility of state and local taxes. Those changes could somewhat offset the changes in the capital gains rate. If people in high-tech States are able to deduct more because of the changes to the state and local deductions. I'll also send around a link to an article. We looked at some of the impacts of the most recent of the Trump Administration's tax reform.

Tim Garbinsky ([00:33:34](#)):

Thanks for that. Ted, do you have any other thoughts there on how the changes in tax rate might affect that ESOP formation?

Ted Becker ([00:33:42](#)):

Well, I think it's a complicated question. And one of the things that we don't have enough knowledge about yet is the effect on ESOP formation of the the major tax legislation of a couple of years ago. There was a lot of speculation on that. It would put a damper on ESOP formation and I think at anecdotally, people haven't seen that. But what we have seen is that there's been a very significant increase in the sale of companies because of the increase in valuations. Which I think are a direct consequence of the of

the tax act of a couple of years ago. And, you know, so that's the opposite of ESOP formation, many, if not, most of those, ESOPs have gone away. So there's no question that tax rates and tax incentives affect these ESOPs.

Ted Becker ([00:34:43](#)):

You know, all we have to do is look back to the founding of ESCA. And before, you know, 1997, when S-corporation tax benefits were enacted largely due to ESCA efforts there was ESOP formation, but it wasn't nearly as significant as there has been since the S-corporation tax benefit was enacted. And you can trace that even back to the beginning of ERISA you know, between 1974, when the ERISA was enacted and ESOPs came on the scene and you know, 10 years from there there was very little ESOP formation, and then there was some tax related legislation that allowed lenders to have tax benefits from lending to ESOPs and providing the capital or, well, the financing for the purchase of shares of owners, founders by the employees by the ESOPs.

Ted Becker ([00:35:50](#)):

And you can see real uptick then so that every time there's major tax legislation, there is an effect on ESOP. But the big question is what's it going to be because as Noelle knows better than anybody. There's so many moving parts. And and, you know, special legislation that affects ESOPs only you'd think as time goes on other tax legislation has consequences that are unintended, such as Noelle just pointed out. So I guess the short answer is we don't know, because we don't know what the tax rates are going to be or what other tax reforms quote unquote are going to occur, but we can be sure that they're going to have an effect on ESOPs and employee ownership.

Tim Garbinsky ([00:36:38](#)):

Thanks for that, Ted. Noelle if you would like to continue the thread with an eye towards S-corporations.

Noelle Montano ([00:36:46](#)):

Well, I'll just add a little political flavor. The Biden Administration has been very, very clear that they support increasing C-corporation tax rates. It came up during Janet Yellen's confirmation hearing with the finance committee. They want to do that, but what's really hard to see is how do they get that passed in a 50/50 Senate? So I think what, you know, a lot of people in the business community are asking us is like, well, when's this gonna happen? And it's like, I don't know that it can get out of the Senate. That will be super interesting. I mean, we're all watching right now to see if there's any sort of compromise on this trillion dollar COVID relief package that the Administration is promoting versus the Republicans who seem to want to engage, but at a third of that price.

Noelle Montano ([00:37:29](#)):

So you've got that going on. So it's going to, so for anyone who's worried about C-Corp tax rates going up immediately, not going to happen. The margin in the house is also incredibly small. I think Democrats have a nine seat advantage, something like that. So they could get a tax bill that increases C-Corp rates out of the house. It's going to be really, really hard to get out of the Senate. So I think we all need to be aware that this could happen, that it is a priority, but it's gonna be really difficult. And we do have a friend in the White House if I can mention that now. Ted set this up with a nice segue talking about Janet Yellen's remarks about income inequality. ESCA started working with economist, Jared Bernstein, back in 2015, he wrote a paper for us in 2016, talking about how ESOPs can be very important to addressing wealth inequality.

Noelle Montano ([00:38:22](#)):

He's now on Biden's council of economic advisors and ESCA just released a study by Jared that came out last month, where he's looking at the question, why are there not more ESOPs? So we do have this in the White House, in the Administration, and they very much just had said, or looking at things through a lens of how do we address wealth inequality. That's something we know that Jared feels incredibly passionate about. So employee ownership can certainly play a role in those discussions, but also important for us to keep in mind that that's really a message for the Democrats. I was talking to a Republican staffer and I mentioned, Jared's earlier paper. I said, yeah, it addresses wealth inequality. And he said, well, my boss doesn't believe there's any such thing. Like, wow, like that's good to know. So it's kind of a lesson for us on how we message that.

Tim Garbinsky ([00:39:15](#)):

Very important bit of color there. Noelle, thank you for that. Actually, to sort of continue down the thread, if it's okay with the panelists, I'm going to jump a question and talk a little bit more about some of our sort of known allies who might be coming into this Administration. I'm going to address this question first to Melissa then Loren. The Main Street Employee Ownership Act was intended, of course, to encourage the creation of employee ownership, worker ownership, worker co-ops ESOPs. So what would you like to see happen in the SBA (Small Business Administration) under the leadership of Isabel Guzman? Who we have, who we do have experience with and who is an ally of the community in her support. So starting with you, Melissa, what would you like to see change under the SBAs direction for the Main Street Employee Ownership Act?

Melissa Hoover ([00:40:10](#)):

Sure. Yeah. Isabel Guzman was director of the Office of the Small Business Advocate at the Governor's Office of Business and Economic Development here in California. And was yeah, was an ally, is familiar with employee ownership, and is supportive. You know, I think the ask at the SBA is, is simple. It's almost embarrassingly simple, which is to say like support the implementation of the Main Street Employee Ownership Act in the spirit in which it was intended. The FDA under the previous Administration was indifferent, to potentially hostile might be too strong of a word, but it was uninterested essentially in implementing the Main Street Employee Ownership Act fully. And so it was a struggle. So I think really just sort of getting the agency behind it. There are a couple specific things that, that the SBA can do.

Melissa Hoover ([00:41:12](#)):

So money is important. It's an unfunded mandate now. So that's a legislative issue, not an agency issue. But I think the agency support is important for that. And I think, you know, that we need to be looking at the sort of not just funding, the technical assistance and education through the SBA, but also sort of a financing mechanism that includes some sort of access to equity capital whether that's the SBICs or something else it should be on the radar as, as part of the implementation. So I think, you know, removing the barriers, there are again to the interplay between local and federal there are really successful local SBDC relationships, small business development centers have taken up employee ownership in pieces around the country, the regional SBA offices, the New York district is really interested in employee ownership and did a sort of educational initiative.

Melissa Hoover ([00:42:12](#)):

So I think, you know, our strategy previously was to work at the local and regional level. We think to the extent that that can filter up and inform a broader federal implementation initiatives important and educate the staff. I mean, we have talked to SBA staffers who have just so little background on employee ownership, ESOPs, or worker co-ops. And I think also more generally the SBA under attends to succession you know, they're really interested in startups and growth, but succession planning is sort of an afterthought there. So I think bringing that front and center is going to be really important, you know, it has not, the Main Street Employee Ownership Act has not dramatically changed access to capital has not dramatically changed access to information. So there's just really still work to be done there. I would rely on my colleagues on the panel to talk more specifically about some of the ESOP barriers through at Main Street, because I think that's important. I just don't have the detail.

Melissa Hoover ([00:43:18](#)):

I will say that you know, this is a relatively simple ask in a Byzantine bureaucracy that the agency get behind implementing. But we're sort of inspired by what happened in the blink of an eye with with the relief package, the very first relief packages. The personal guarantee requirements for loans for worker co-ops was waived, in a minute. We've been trying for that for like decades. So it was it was an example of sort of how quickly things can shift where there's a real felt need. I will I'll stop there and see what the sort of specifics on SBA implementation are from the others.

Tim Garbinsky ([00:44:03](#)):

Thanks, Melissa. I'll turn that to Loren then.

Loren Rodgers ([00:44:05](#)):

Good. Well, I'll be brief because I think what you said, Melissa, covers the points I wanted to cover. That's spot on. Our sense is that some SBA loans to support ESOPs are happening. There are some, we've had a few people come to our events that have worked on this via the SBA program. A few ESOP companies that are members of the NCEO that have ESOPs because of the SBA program, but it's, it's not nearly reaching its potential or the intent of Congress there. So I think we can do a better job of doing the kinds of changes that Melissa was talking about.

Loren Rodgers ([00:44:42](#)):

I'm really excited about the potential for more publicity through the SBA for employee ownership. And I also want to give a shout out to you, Tim. One of the things that Tim's been doing is working with Isabel Guzman earlier when she was in California and on direct outreach to some of the SBDCs to try to make sure that they have the tools to understand and talk about employee ownership.

Tim Garbinsky ([00:45:11](#)):

Yeah. Room for growth as Melissa indicated for sure. But it's heartening to see that when there's, that felt need, things can move. I would be remiss if we didn't touch on this topic at all. So I am going to turn to Ted and we'll talk a little bit about regulation, the Department of Labor. I know that's definitely on a lot of our attendees minds, especially where ESOPs are concerned. So, how do you Ted expect the Biden Administration and in particular, the proposed Secretary of Labor, Marty Walsh to affect the ongoing actions by the Department of Labor?

Ted Becker ([00:45:46](#)):

I think that, by the way, Marty Walsh, his confirmation hearing is tomorrow. If anybody wants to hear it from the horse's mouth what I'm going to prognosticate today, he hasn't testified yet, but based on his background, I think everybody knows that he has a strong labor background with labor unions. And then of course, most recently as the mayor of Boston it's a wonderful resume, I think, for somebody to be the Secretary of Labor. And we haven't had somebody with that kind of a resume and a breadth of experience for quite some time at the helm of labor how it will affect ESOP regulation is another question and here's why. Historically I have not seen much correlation except when Phyllis Borzi was the Secretary of Labor between who the Secretary of Labor is and the enforcement initiatives of the Department of Labor.

Ted Becker ([00:46:53](#)):

And that's because there's career folks in the Department of Labor who are very influential and have been there for quite some time. And they have a perspective on ESOPs that is not always the same positive perspective that we share. Now during the last Administration there was something that was very interesting, a very interesting development. Which was an executive order that was then followed by what's called what was called the good guidance rule. And it was a lengthy executive order and a lengthy DOL rule. But in a nutshell, how it had the potential to impact ESOPs is we've been seeking for a long time a regulation on adequate consideration back when ERISA was passed. The intention was that, you can't sell stock to an ESOP for more than adequate consideration, otherwise pretty much known as fair market value in good faith.

Ted Becker ([00:48:02](#)):

And so the DOL has attacked, quite aggressively, ESOP transactions that it says were sales of stock to ESOP for more than fair market value. Now the good guidance rule would have scaled back the ability of the Department of Labor to informally regulate or, as Jim Hauser puts it, regulate by litigation. And, you know, that would have been good. I think because what we want to do is we want to scale back the aggressive enforcement that we've experienced from the Department of Labor. The reason it would have done that is because the good guidance rules said that if it's not in the code of federal regulation, the federal register, if you haven't had introduced a regulation vetted it had public hearings on it, had a common period then you can't use it for informal enforcement or informal guidance.

Ted Becker ([00:49:13](#)):

Well one of the things that happened last week is that the good guidance rule was rescinded by the new Administration, by the Department of Labor under the new Administration. Even before we have a Secretary of Labor, which is very interesting. So, so who did this? Well, I, I don't know for sure, but I think that there was a groundswell of staff pressure from DOL staffers to get rid of this good guidance rule. So the question will be, are we left with are we returning to, and even more aggressive enforcement posture as we did under, under Secretary Boise. But I don't know if it's going to have much to do with Secretary Walsh. I think that under Secretary Perez we had support from political appointees for ESOPs, but we had pushback from the folks who were in enforcement, in the DOL.

Ted Becker ([00:50:21](#)):

What we need to do now, and it's going to be a very interesting effort is we need to connect all of the initiatives of the new Administration and the political appointees with the enforcement arm of the Department of Labor and get everybody rowing in the same direction. And hopefully that's going to be in the direction of supporting ESOPs. So as distinguished from what they've been doing. One last

footnote I think that soon to be, hopefully, Secretary Walsh with his union background may be able to connect unions to the ESOP and employee ownership initiatives. Because there hasn't always been a good relationship between unions and the employee ownership community and particularly ESOPs. And I think that's because unions feel that that infringes on their territory, they're supposed to be the ones pushing for and providing the benefits to the workforce.

Ted Becker ([00:51:28](#)):

And when the company does that of course that's one less benefit that the union can take credit for. And of course, when the employees are owners it kind of destroys the Marxian Paradigm, you know, where the boss is, the enemy of the workers, because the workers are the owners. So it'll be very interesting. My hope is that that soon to be Secretary Walsh will be able to reach out to unions and explain that there is a lot to be said for fostering employee ownership. And it doesn't necessarily, it's not an either or proposition they're not mutually exclusive. You can have unions in a company and you can also have employee ownership. And there are several good examples of that.

Tim Garbinsky ([00:52:25](#)):

Thanks for that, Ted. I know there's a lot more questions people have especially, of course around, the DOL, but there's a lot of great questions in here. I do want to go ahead and point out before we move on to another question, we're wrapping up soon, we're in our last 10 minutes. A lot of these questions first of all, you will be getting a follow-up email, which will have the contact information for all of our organizations. And you'll be able to reach out directly with specific questions. Of course. A lot of these questions are also answered on the NCEO's website. Especially as of late. We have a lot of different articles coming out, especially in our newsletter for members that address a lot of the political implications or ramifications of the current of just the current environment.

Tim Garbinsky ([00:53:14](#)):

So you can find a lot more if you don't get your questions answered in this particular hour, there will be other opportunities for you to seek those answers. We are, as I said, heading into the final stretch, I would love to give everybody on the panel adequate time to answer this particular last question. Which is, do you see an inflection point coming? Which is to say a crossroads where things might go in the right direction or the wrong direction, and from the perspective of people listening, what would you ask them to do if they want to contribute to things, working out well for employee ownership when we get to that inflection point. So I'd love it. If all panelists could take the time they, they need to to get that point across and answer that question adequately, and I'll start with you Noelle.

Noelle Montano ([00:54:07](#)):

Sure. Well you know, the parties are more divided than ever before. I mean, we've all felt this. I worked on Capitol Hill in the nineties and I've been talking to my colleagues recently. We've never seen anything like this at all. So it really is a very different environment than any of us who've been working with federal policy makers for 30 years have ever been in. But I think for the employee ownership community, what we need to focus on is that we're the party of ESOPs or we're the party of employee ownership. We need to be that bridge, there's only maybe a handful of things that people across the political spectrum can agree on. But if we work on our messaging and our data and our company stories, our personal stories, you can get to the most liberal Democrat and the most conservative Republican, and everyone is going to find something that they like, that they care about related to good jobs, income inequality, retirement savings that will resonate with everyone.

Noelle Montano ([00:55:11](#)):

So I think what we have to make sure is that we elevate ourselves above this politics. That when we look at members of Congress who were talking about, try not to focus on other things that they have done or said outside of our area. We need to be laser focused, again, just talking about employee ownership and ESOPs. And it's those personal stories that are going to make a difference coupled with data. So ESCA has been fortunate to continue to work with NCEO on studies. We really appreciate partnering Loren with you and your colleagues on this, because it's wonderful when we have numbers of Congress, they kind of speak to our group and they start reporting the statistics that we've provided in a briefing then, though, to them, like, did you all know that employee owners have twice as much in their ESOP account as their 401k account, they remember that.

Noelle Montano ([00:55:59](#)):

And that resonates that they need to know that, and they need to be meeting with companies. We did a number of virtual town halls once COVID hit, because we were still bringing members of Congress together with our community. So we'd have a member from Ohio and we get representatives from our Ohio companies, and the members of Congress were so happy to be talking about something good. Even if the businesses were struggling financially, because of what was on in COVID, there's still that employee ownership spirit that they're looking out for each other, that the company is looking out for their employees. So it was really heartwarming that like, we would make them smile. We need to get to be like the bright light in this political discussion.

Tim Garbinsky ([00:56:41](#)):

Fantastic message going forward. Melissa, if you could pick that question up as well.

Melissa Hoover ([00:56:46](#)):

Yeah. I agree. I guess, sort of beyond regulations and incentives I'm interested in pushing a vision of broad-based ownership that is practical, about ownership that meets needs sort of across the political spectrum. So I think keeping it both visionary and practical is, is our strength. Ownership is a compelling message. It's positive, it's ours. No one else is doing this. And ESOPs and worker co-ops have a role to play in shaping the future of our economy. We're a tool to meet needs where solution for rural and urban economic recovery and resiliency. So I think that sort of keeping it focused on the positive benefits of ownership and a vision for a more broad-based ownership society is, is compelling. And it lands, I think practically what people on the call can do is sort of think about, about employee ownership broadly.

Melissa Hoover ([00:57:52](#)):

So this is an ESOP focused call, but don't forget about your little sister, you know, other kinds of cooperative ownership forms. And likewise, when we meet with representatives or have a little bit of shine on our initiatives, we always build the bridge and say, it's much broader. We use the data, we, you know, prop up the form generally. So I think linking them together is a powerful it can be uncomfortable, you know, there are different politics and approaches, but I think it's important that we try and then agree a hundred percent with Noelle on stories and data. So to the extent that companies, themselves and people who work with companies can tell their stories, even a little snippet is really powerful and then contribute to the data, all of these surveys and requests, the research projects really matter. They end up benefiting the community more broadly, but so that's, yeah, that's my ask.

Tim Garbinsky ([00:58:48](#)):

Thank you for that, Melissa. I always agree very emphatically with the linking of all the employee ownership forms, all the broad-based employee ownership forms as tools to get to the same end. Which is, you know, that stronger, more resilient economy that better, more protected workforce. So you know, all the points made by both you and Noelle so far, very, very well heard. Ted, if you'd like to take up the question as well.

Ted Becker ([00:59:14](#)):

Well, first I agree with all three of you and I hope there's not an inflection point. And here's why, because I think that we're doing a lot very well. And I think that we, within the ESOP and the employee ownership community, should continue and double down on what we're doing. Research, education, lobbying all of those components are very important. I think society is evolving, and it's evolving in the direction of all the things that we see are attributes of employee ownership. And I agree it doesn't matter if it's an ESOP or a worker cooperative or some other form of employee ownership. It's giving employees a stake in the company, which was of course, Louis Kelso's original idea to begin with. And you know, ESOPs, for example are often, you know, referred to as retirement plans. But actually if you look back at the legislative history of ERISA, they weren't meant to be primary retirement plans. They were meant to be a form of employee accumulation of capital.

Ted Becker ([01:00:24](#)):

And of course we struggle, society struggles, politicians struggle with the question, how do we help the middle class? How do we bring the middle class back? How do we build the middle class? Well, employee ownership is the obvious solution. So all of the things that we're doing, we're doing the right things. I hope there's not inflection point in the sense that there would be something, some external factor that would interrupt or disrupt everything that we're doing. Let's keep doing what we're doing. And I think we'll make progress in both the near and long term.

Tim Garbinsky ([01:00:59](#)):

Thank you, Ted. Here, here. I share your sincere desire for no inflection point. I will turn it over to the Loren to bring us home, please.

Loren Rodgers ([01:01:10](#)):

Right. Thank you. And of course I agree with what all four of you just said, I'd add just a few small things. Melissa, one of the reasons I'm so excited about having you on this call is I feel really good about the collaboration that that we've built among different forms of employee ownership. That feels like a real great sign for the future. And I think our messages reinforce each other so beautifully. It's nice to see. Stories and data. I love that framing. Noelle, thank you for that. One thing I'd add to that is keep making these stories. Part of the strength of our employee ownership community is that you people listening to us now do cool things.

Loren Rodgers ([01:01:49](#)):

You do things that other companies want to do and ought to be wanting to learn from. So don't just keep pushing the envelope, which I know you will keep doing. But tell us about it. Drop a note to Melissa, to Tim. And we'd love to put this in a video, in a case study. It's great to do, to make a great

thing happen, but it's not a story unless other people hear it. So I'd encourage you to share it. So, I know Tim, you've got some wrap up things you wanted to say, but let me just say, Thank you.

Loren Rodgers ([01:02:21](#)):

I appreciate everybody on this call for the amazing things you do to make employee ownership real and vibrant and exciting. And Melanie, you used the word in the chat, community. One of the things I really appreciated about it is that we are a community. We support each other, and this is one of the ways we do it back to you, Tim.

Tim Garbinsky ([01:02:42](#)):

Thank you so much, Loren. Well, here, here, all around, not a single thing I disagreed with in our little wrap-up there, and I really appreciate that. We're at time again, this conversation will be available online so you can share it with colleagues. You can share it with friends. And again, this is the very first in our Community Conversation series. We hope to continue this series, again, throughout the year. Bringing relevant, timely topics direct to your computer as soon as we possibly can. So be on the lookout for more of those coming up. And if you're not a member by all means, check out the NCEO for membership.

New Speaker ([01:03:23](#)):

There's more of this great content, but without further ado, you'll be getting your follow-ups. But I just want to make sure I extend a very, very sincere thank you to our panelists for their support and for their participation, not just now, but you know, throughout my tenure here. So an enormous thank you to Noelle at ESCA and Melissa at DAWI and to Ted at McDermott Will and Emery and of course my esteemed leader, Loren. An enormous thank you to all on this call. Thank you for joining this panel and for sharing your insight. We hope you've found them rewarding and relevant, and that concludes our presentation.