



STATE OF WASHINGTON
DEPARTMENT OF COMMERCE
1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • 360-725-4000
www.commerce.wa.gov

November 26, 2024

Ms. Sarah Bannister, Secretary of the Senate
312 Legislative Bldg.
PO Box 40482
Olympia, WA 98504-0482

Mr. Bernard Dean, Chief Clerk of the House of Representatives
338B Legislative Bldg.
PO Box 40600
Olympia, WA 98504-0600

Re: SB 5096 RCW 43.330.590, 43.330.592, and 43.330.595 – Washington Employee Ownership Program update

Dear Ms. Bannister and Mr. Dean,

This letter provides our initial update and status of the Employee Ownership Program (WA-EOP), pursuant to the requirements of the program in RCW 43.330.590, 43.330.592, and 43.330.595.

The Washington Employee Ownership Program was established by Senate Bill 5096 in 2023 (Chapter 392, Laws of 2023) and is administered by the Department of Commerce. It is overseen by the Washington Employee Ownership Commission, as detailed in Section 3 of the bill. Recent amendments to Chapter 43.330 RCW (RCW 43.330.590, 43.330.592, and 43.330.595) reflect the Legislature's intent to promote the growth of employee ownership structures through the expansion of this act.

The Washington Employee Ownership Commission consists of an 11-member advisory board, seven of which are appointed by the Governor, and responsible for overseeing and supervising the Washington Employee Ownership Program. All members of the board were fully appointed by May 2024.

The primary purpose of the Washington Employee Ownership Program is to support businesses in transitioning to or adopting employee ownership structures. For more information, please visit the [Washington Employee Ownership Program \(WA-EOP\) webpage](#).

The Legislature's objectives include:

- ✓ Educating businesses about the benefits of employee ownership.
- ✓ Assisting business owners and employees in accessing available resources.
- ✓ Reducing barriers to transitioning to employee-owned structures.
- ✓ Offering tax incentives for businesses converting to employee ownership.
- ✓ Providing financial support through loans and grants to cover transition costs.

State and federal governments are increasingly supporting employee ownership through tax incentives, technical assistance, and legislative efforts, such as the Promotion and Expansion of Employee Ownership Act. In 2024, the U.S.

Department of Labor's newly established Division of Employee Ownership under the SECURE 2.0 Act reflects a heightened federal commitment to the concept.

Washington has about 200 employee-owned businesses employing approximately 50,000 people across various sectors. These businesses include employee stock ownership plans (ESOPs), employee ownership trusts (EOTs), and worker cooperatives. However, challenges remain, including high adoption costs, limited access to capital, regulatory complexities, and the need for increased education and support.

Employee Ownership Program progress in 2024:

The year 2024 marked significant progress for the WA-EOP. Highlights include:

- ✓ **Established** the Washington State Office of Employee Ownership and appointing the inaugural program director in February 2024.
- ✓ **Launched** the WA-EOP Commission, including drafting bylaws and onboarding procedures for new commissioners, and holding three public meetings to encourage community engagement and participation.
- ✓ **Built strong relationships** with key stakeholders, including state and federal agencies, as well as community partners, to foster the long-term success of the program.
- ✓ **Introduced** an official email communication channel, providing businesses with direct access to the Employee Ownership Office for support and inquiries. To date, the office has received over 100 inquiries from companies exploring employee ownership options.
- ✓ **Collaborated** with the Washington State Department of Revenue (DOR) to develop and implement the employee ownership tax credit, which became effective on July 1, 2024. Five newly formed employee-owned companies have already submitted applications for the tax credit.
- ✓ **Initiated** an interagency data-sharing agreement with DOR to streamline communication and improve data collection, enabling measurable tracking of program results.
- ✓ **Engaged** with the Washington Secretary of State (WA SOS) to explore the possibility of integrating employee-owned companies into the existing business registration system.
- ✓ **Developed and launched** the program's official website and commission portal, providing a centralized hub for resources, communication, and information.
- ✓ **Conducted research** to establish a baseline of companies in Washington currently operating as ESOPs, cooperatives, or trusts.
- ✓ **Compiled** a comprehensive list of federal and state agencies, non-profit and for-profit organizations, and community partners offering technical assistance and resources to employee ownership entities.
- ✓ **Presented and facilitated workshops** with stakeholders and community partners to promote the program and its benefits.
- ✓ **Began developing** Washington Administrative Code (WAC) regulations for the Employee Ownership Program. The CR-101 notice was filed on October 7, 2024, and we aim to file CR-102 in early December.

From our initial observation and engagement with the business community, the barriers identified by the National Center for Employee Ownership (NCEO) is consistent with the barriers in Washington State. The following key barriers to the development of employee ownership are as follows:

- **Financial constraints:** Limited access to capital is a significant barrier for businesses seeking to transition to employee ownership. The initial exploratory costs are estimated at approximately \$100,000 for mid-sized companies. These costs encompass business valuation and feasibility assessments conducted by accountants and

attorneys. In many instances, such financial burdens may deter companies from advancing in the transition process.

- **Complexity of transition:** The process of transitioning to employee ownership is often complex, requiring extensive planning and expertise.
- **Lack of awareness:** A significant number of business owners are unaware of the benefits and opportunities associated with employee ownership models.
- **Regulatory and legal challenges:** Navigating the legal and regulatory frameworks for employee ownership can present significant hurdles.
- **Cultural and organizational resistance:** Resistance to organizational change can impede the successful adoption of employee ownership structures.

In the remainder of 2024, we will focus on finalizing and refining all operational processes to enhance direct supportive services to businesses and strengthen relationships with all stakeholders and community partners in 2025. This will include developing and implementing the program's WACs, launching a robust marketing and communication strategy, and providing resources, referrals, and direct technical assistance. Additionally, we will explore the possibility of offering grants to businesses interested in adopting an employee ownership structure. Furthermore, we are in the process of developing a proposal (RFPs) to select a thought leader and partner who specializes in Employee Ownership models to support these initiatives.

As we approach our first anniversary, we believe we have successfully accomplished our goals and are prepared to launch supportive direct technical assistance and advisory support to the business community considering adopting an employee ownership structure.

Signed,

Linda L. Womack

Linda Lee Womack
Managing Director, Small Business Finance & Community Support Unit
Washington State Department of Commerce
Office of Economic Development and Competitiveness