OWNERS AT WORK

the magazine of the
Ohio Employee Ownership Center
Volume XXI No. 1 Summer 2009

Evergreen Takes Root

Evergreen
COOPERATIVE LAUNDRY

This abandoned industrial building will be saved from demolition, salvaging its embodied energy and reusable building materials.

The new clean and rejuvinated building exterior will be enhanced with decorative murals created by local artists. This employee owned business will be housed in an adapted industrial building reborn as a healthy, high-performance "green" building with natural daylighted interiors, recycled and regional materials, and low chemical content finishes. It will earn a LEED CI Silver certification.

Also...

ESOP Sustainability

Highlights from the 23rd Annual Ohio Employee Ownership Conference

Employee-Owned Cooperatives Make Better Jobs

OWNERS AT WORK

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The OHIO EMPLOYEE OWNERSHIP CENTER (OEOC) is a university-based program which provides information and technical assistance to retiring owners, buyout committees, labor unions, managers and community-development organizations interested in exploring employee ownership. Center staff can help locate competent and appropriate legal and financial advisors, and perform initial assessments to determine whether employee ownership is a viable option. The OEOC develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, develops and delivers training programs for employee owners, facilitates cooperation among employee-owned firms, coordinates a comprehensive succession planning program, and assists international efforts to privatize businesses through employee ownership.

The OEOC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation, the Ohio Department of Job and Family Services, as well as contributions from Kent State University, Friends of the Center, and the companies that comprise Ohio's Employee-Owned Network.

KENT STATE
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Publisher's Note

Are ESOPs sustainable in the long run? And, if so, how? This issue of Owners at Work has a special focus on these questions.

Peter Paquette, Vice President and Treasurer of Massachusetts' Claremont Flock Corporation, has been a key figure in raising this discussion nationally. He addressed the question at the 2009 Ohio Employee Ownership Conference, and we have printed a shortened version of his comments as "Are ESOPs Sustainable?" A sidebar to the Paquette article speaks to what the directors of Ohio employee-owned companies can take into consideration in making their decisions. Note that Ohio corporate law, unlike Delaware's, gives directors latitude to consider interests of the employees. other stakeholders and the community, as well as those of the shareholders.

One of the major threats to ESOP sustainability is the failure to plan for repurchase obligation. Bill McIntyre's "minimize surprises" philosophy has much to recommend it for managing the impact of repurchase liability. This article should be a "must" for ESOP company boards and other fiduciaries, especially following the Antioch Company bankruptcy reported in the last issue of OaW ("Antioch Enters and Exits Bankruptcy").

Can we start new employee-owned businesses and take them to scale? That's a second focus of this issue: the new Evergreen Cooperatives in Cleveland. These employee-owned cooperatives will provide employment and build assets for their working members in the Greater University Circle neighborhoods, in part based on contracts with the major non-profit institutions in this area, which include the Cleveland Clinic, University Hospitals, and Case Western Reserve University. As the name denotes, they are committed to using green technologies and reducing the carbon footprint by providing goods and services to these "anchor" non-profits.

"Revitalizing Communities through Employee Ownership" by the Cleveland Foundation's Bob Eckardt explains the Evergreen project; the Cleveland Foundation's commitment has been key to getting the Evergreen co-ops off the ground. Jackie Yates provides a case study of the Evergreen Cooperative Laundry, the first of the Evergreen Cooperatives, chosen after careful market research indicated strong demand in a growing market. Many of the ideas behind the Evergreen Cooperatives are drawn from the Mondragon cooperatives in Spain, highlighted most recently in the last issue of OaW ("Cleveland Goes to Mondragon" and "Spanish Lessons: Employee-Owned Companies in Ohio on a Mass Scale?")

This issue also features an article on the green house-cleaning cooperatives set up by WAGES in San Francisco. After years in the trenches working to set up individual co-ops, WAGES has developed a network of cleaning cooperatives that are raising wages and benefits for immigrant women in the Bay Area. It's a model that deserves our attention.

USDA Expands Loan Guarantees to Worker-owned Cooperatives

New regulations have opened the door to using U.S. Department of Agriculture loan guarantees for succession planning and ownership transitions that create employee-owned cooperatives in rural areas and communities with less than 50,000 population.

By guaranteeing commercial loans, the USDA Rural Development Business and Industry Loan Program has supported economic development projects, including food, marketing and producer cooperatives, in rural America for decades. Under the Business and Industry (B&I) Program, a financial institution approves a loan to a commercial business and the USDA guarantees a portion of the loan. The loan can be up to $10,000,000. The borrower must meet equity and collateral requirements, and the loans generally require personal guarantees. The project must involve job retention or creation as a reason for the extension of credit.

Historically the program has limited the borrower's dilution of equity to ensure that the owner maintains his/her stake in the operation and doesn't intentionally transfer additional risk to the lender. These requirements made it difficult for an employee owned cooperative to transfer ownership from its retiring cooperative members to new members. The new regulations, effective October 1, 2009, will allow such "intergenerational" transfers.

A second important change is the ability to transfer the ownership of a private business to an employee owned cooperative with the help of a USDA guaranteed loan. For more information on any of the above programs, please contact James Cogan at 614.255.2420 or jim.cogan@oh.usda.gov. To determine if you are in an eligible area, please go to http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do. Select Business Programs from the menu and type in your location or project address.

OEOC Board Urges Stimulus Spending on Employee-owned Companies

In its annual meeting on April 16, the OEOC Advisory Board voted unanimously to urge Ohio governmental units receiving stimulus funds to buy from American companies and, especially, from employee-owned firms.

Dennis Brommer, from the United Steelworkers Region 1, pointed out that the stimulus funds were American taxpayer dollars being spent to stimulate the American economy, and hence it was only common sense to commit them as intended.

The board discussed issues of protectionism, including the Smoot-Hawley Tariff of 1930 and the fact that many Ohio manufacturing companies are significant exporters and could be damaged by other countries pursuing "buy local" provisions. The board discussed major losses of manufacturing jobs – 35% of Ohio's manufacturing base and more than 5% of Ohio's total jobs since 2000 – and the broad "reverse multiplier effect" on employment that is set in motion by the loss of high value added jobs.

Buying from employee-owned firms is superior to other local purchasing. Employee-owned firms are more likely to pay better wages and benefits and more likely to reinvest locally than their conventionally owned competitors. They are less likely to outsource or off-shore jobs and less likely to lay off employee owners. And, of course, they build assets for working families.

After extended discussion Brommer moved that "the OEOC and the Advisory Board support having municipalities that receive stimulus money spend them with American suppliers and preferably employee-owned businesses." The resolution passed unanimously.

Employees Will Take Substantial Ownership in Auto Industry through VEBA Trusts

The auto crisis has worsened since Corey Rosen highlighted the Chrysler ESOPs and the 1979 Chrysler loan guarantee in the Winter issue of *OaW* ("ESOPs in the Auto Industry: Round 2?"). Both Chrysler and General Motors have filed bankruptcy. Each aims at a speedy exit, supported by the US Treasury.

As we go to press, the current expectation is that both Chrysler and GM will emerge from bankruptcy significantly owned by their respective Voluntary Employee Benefit Associations (VEBAs) for retiree health care. The current plan is that Chrysler will be 55% owned by its United Autoworkers-administered VEBA in return for $6 billion of the $10.6 billion that Chrysler owes the health care trust. GM will be 17½% owned by its separate UAW VEBA, and the VEBA will have options on an additional 2½% of the new GM when – and if – it achieves a market value of $75 billion. The GM VEBA will also receive a significant amount of preferred stock in the new GM. GM owes its retiree health care trust $20 billion.

While union-linked VEBAs have been used to take retiree health care off the company's books in several cases, including Goodyear, they have typically been funded with cash, rather than company stock. The one case which may be similar to the Chrysler and GM cases was Wheeling Pitt, the steel company, which in 2003 emerged from bankruptcy 40% owned by a health-care VEBA. The stock-funded VEBA was a qualified success. The Wheeling Pitt stock had value, and the VEBA covered retiree health costs, paying out $12.1 million in benefits in 2006 and $9.2 million in 2007. The obligation to fund the VEBA more fully passed to Esmark, which bought Wheeling Pitt, and is now held by Severstal, a Russian steel producer that bought Esmark; the VEBA was the subject of negotiation between Severstal and the Steelworkers in March 2009. Meanwhile a preliminary agreement has been reached that GM's German and English subsidiary, Adam Opel, will be sold to Canada's Magna International, a manufacturer of auto components. The ownership will be split between Magna (20%), Russia's Sberbank which is connected to Russian auto company GAZ (35%), Opel employees (10%), and GM, which will retain 35%. GM purchased 80% of Opel in 1929 and the remainder in 1931 during the Depression. Opel produces the Opel brands in Germany, Britain, Poland, Spain and Belgium, and the Vauxhall brands in Britain. The deal is expected to receive financial support from the German, Belgian, and British governments.

Ohio Cooperative Solar

Why would Evergreen Cooperative Development Fund (ECDF) start a solar panel installation business in Cleveland, Ohio? After all, Ohio is not known for its sunny days. While not as sunny as California (where the

solar panel industry has soared), it is sunnier than Germany (where solar panels are ubiquitous). Maybe it's not the sunshine, but policy, that creates the growth.

Buoyed by the new solar energy mandates legislated by the State of Ohio and favorable tax credit and low cost loan incentives available from the Obama and Strickland administrations, ECDF is planning for Ohio Cooperative Solar (OCS) . Like its slightly older sibling (Evergreen Cooperative Laundry), OCS will be managed for profit, create green jobs, employ worker owners recruited from the neighborhood, and provide services to regional anchor institutions. These institutions, like the Cleveland Clinic, University Hospitals, and Case Western Reserve University, want solar on their rooftops, but as nonprofits cannot take advantage of the justifying tax credit incentives.

OCS provides a turnkey solution by arranging technical design, equipment purchasing, capital financing, and lifetime maintenance. The customer signs a rooftop lease and power purchase contract, agreeing to the long term purchase of energy generated by the panels at rate slightly higher than their conventional source. All energy generated is consumed within the occupied building (OCS does not sell to the grid).

To maintain a year round workforce, OCS will also provide energy audits and weatherization for government and residential buildings.

ComDoc Sold to Xerox Subsidiary

ComDoc, Inc., a 100% ESOP-owned office equipment supplier with 640 employee owners located in Ohio, West Virginia, Pennsylvania and New York, was acquired by Global Imaging Systems, Inc., a wholly-owned subsidiary of Xerox Corporation on February 25, 2009. ComDoc was founded in 1955, had been employee-owned since 1985, and became 100% employee-owned in 2006. As owners, ComDoc's ESOP participants will share in the proceeds from the sale. Xerox expects to gain 14,000 new customers.

Riley Lochridge, ComDoc's CEO, said "Our decision to be acquired was made from a position of strength, as we just achieved our fifth consecutive year of record revenues."

While its sale at an attractive price is a nice benefit to its employee-owners, ComDoc will be missed among Ohio ESOPs. It was a model ESOP company, successfully practicing many participatory management principles consistent with establishing an ownership culture. Its employee-owners have been active participants in many Network programs. For the past 6 years, ComDoc has sponsored the OEOC's Network CEO/CFO semi-annual dinner gatherings, with the "hope that people see familiar faces, develop friends and engage in meaningful dialogue in an enjoyable environment," remarked Lochridge.

Ohio's Award-Winning ESOPs

Leading EDGE Award Winners

Seven employee-owned firms were among the 95 northeast Ohio winners of the 2009 Crain's Leading EDGE Awards. They were ComDoc Inc., The Davey Tree Expert Company, EBO Group Inc., Falcon Industries, Garland Industries, Plasticolors, and Rable Machine Inc.. The group of 95 honorees collectively pumped $1.6 billion into the Northeast Ohio economy in 2008, as measured by average earnings and compensation to local employees, and created more than 1,800 net new jobs over the past two years.

EBO Group, Inc., a Leading EDGE winner in 2007 and 2008, has also been selected by the Greater Akron Chamber and Small Business Council as a recipient of the 2009 Excellence in Business Award. EBO Group and their subsidiaries PT Tech Inc., TransMotion Medical, IPESsol, and Triton Hybrid provide products in the areas of caliper disc brakes, clutches, torque limiters, medical chairs, hybrid drives and power energy storage solutions. The EBO acronym stands for 'excellence by owners.' The Sharon Center firm became 100% ESOP-owned in 2008 and has 68 employees.

ESOP Association Winners

Mills James' "What is an ESOP?" video won The ESOP Association's Annual Award for Communications Excellence (AACE) for Audiovisual Materials at the May 2009 Conference in Washington, DC. Accepting the AACE crystal obelisk was Joshua Platt, Market Development Manager and Chair of the firm's ESOP Communications Committee. Mills James, Inc. is the largest private creative media production company in Ohio, specializing in electronic media, corporate meetings and events. Ken Mills and Cameron James started the Columbus firm in 1984. They established the ESOP in 2007 as a long-term exit strategy to reward

The ESOP Association President, Michael Keeling presents the AACE Award for Audiovisual Materials to Mills James ESOP Committee Chair, Joshua Platt.

everyone who created the company's success.

The Ohio/Kentucky Chapter, named YSI Incorporated as this year's ESOP Company of the Year. YSI was also named the 2008 Manufacturing Business of the Year by the Dayton *Business Journal* and was among 24 businesses receiving the Governor's Excellence in Exporting award. Headquartered in Yellow Springs, YSI celebrated its 60th anniversary in business and 25th anniversary as an ESOP in 2008. It has a non-management employee owner on the board and its own Employee Owner Creed of Rights and Responsibilities. With 315 employees operating in 11 countries, it is a global leader in environmental solutions, providing technology and tools for ecosystems protection, and its own Eco-footprint team to be an environmental monitor own communities. The ESOP owns 29% of the company.

Nancy Young, a Technical Writer and ESOP Champion at PRC, is the 2009 Employee-Owner of the Year for the Ohio/Kentucky Chapter of The ESOP Association. Chair of the PRC ESOP Education and Communication Committee from its inception in 2005 through 2008, she launched PRC's efforts to communicate a vision of employee ownership. The committee created educational presentations and an ESOP Eddie Q&A e-mailbox. Headquartered in Wooster, PRC is 100% ESOP-owned and has 125 employee-owners involved in the design and manufacture of products that help people with disabilities communicate and gain independence. The company has earned numerous national, state and local awards for their work and for their efforts towards building an ESOP culture, including the AACE Award in 2007 for Communication Excellence in their Total Communication Program.

Cindy Britten of Kemner-Iott Agency is Michigan's Employee-Owner of the Year. As chair of the ESOP Committee, she reactivated the group with members from the firm's three locations, organized ABCs of ESOPs classes, incorporated ESOP Tips continual ESOP education into monthly staff meetings, designed charts to show the progress of the stock value, and developed a program to educate employees on how to read and understand their annual statements. ESOP Month activities combine education, community service and fun through glove, mitten and food drives, bingo games, and a "guess the stock value" contest.

Kemner-Iott, an independent insurance agency headquartered in Adrian, MI, promotes employee ownership through a "You're talking to the owner!" marketing campaign on local billboards, radio and print ads. Kemner-Iott has 50 employees and is 50% employee-owned through their ESOP established in 1987.

Rable Machine Inc. Pays Off ESOP Loan and Expands

A Leading EDGE winner in 2007 and 2008, Rable Machine Inc. of Mansfield, is shopping for a bigger building in their locality to accommodate expansion. As CEO Scott Carter explained, "we have diversified our customer base, doubled in size over the past three years, and invested $5 million in new machinery over the past five years to make us "state of the art" in the precision machining industry. The future looks very bright for us."

Rable paid off the last of their three ESOP loans in 2008. "We are completely debt free," commented Carolyn Long, Office Manager and Treasurer of the 100% employee-owned firm, "after having three ESOP loans since 1992 to purchase shares from the Rupp family owners." The 70 employee-owners at Rable are planning a celebration in July. OAW

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Our thanks to the people who, through their generosity, have helped make our work possible.

Work and Pay Better at Green Cleaning Coops

Hilary Abell

A successful new cooperative does a lot of planning and training before it opens for business. The wisdom of that approach is well demonstrated with the launch of a green cleaning cooperative by the nonprofit organization, Women's Action to Gain Economic Security (WAGES).

Since 2008, WAGES has been training a group of women in San Francisco to become the founding members of a new green cleaning cooperative. The participants have attended workshops covering everything from business basics to how to get homes sparkling clean using natural products. On February 16th the group enthusiastically launched Home Green Home Natural Cleaning (HGH), a worker owned cooperative in partnership with WAGES and Seventh Generation.

"This is a great moment for all of us. Not only are we starting a business that cares about the well being of all members, but we have the support of an organization that treats us as women who can succeed. Here, we've learned to refine our processes to include our group motto: 'One for all and all for one,'" said Sandra, a founding member of HGH and a young mother. "Together, we are creating a path toward a better future," she added.

Derene, Sandra, Mica, Yolanda, Mari, Acsa, Alicia, Evelin, Elizabeth, Inez, founders of the Home Green Home cooperative in San Francisco.

The socias' (co-op members') enthusiasm about their economic future as worker-owners implementing a proven co-op model is a notable highlight in California's declining economy. In California today, many working Latinos live in poverty. Low-paying, casual housecleaning work and other domestic and factory jobs are among the few opportunities open to the women. As unemployment increases, Latinas—already over-represented in low-paying jobs—are disproportionately burdened by low pay and poverty.

WAGES' mission is to build worker-owned green businesses that create healthy, dignified jobs for low-income women. For the past 14 years, WAGES has been helping low-income Latina women in the greater San Francisco Bay Area establish environmentally friendly housecleaning cooperatives using eco-friendly cleaning methods and products. In the past decade, WAGES has launched four eco-friendly cleaning co-ops in the Bay Area: Emma's Eco Clean (founded in 1999), Eco-Care Professional Housecleaning (2001), Natural Home Cleaning (2003) and most recently Home Green Home Natural Cleaning (2009). The co-operatives provide a variety of benefits, including health insurance and a decent income for their members. Members' earnings are between 50 and 100 percent higher than what the members earned before joining the co-op.

WAGES recently conducted extensive individual and group interviews with members of Natural Home Cleaning (NHC) to document the impact of their participation in the business. The interviews covered the co-op's impact on their financial status, personal and professional growth, and health and benefits usage.

The study results demonstrated an average 70% increase in members' household income and a near tripling of their personal income. Altogether they had improved many aspects of their lives—and their world. "It's great to think about the cumulative effect that we have together on the environment and on our families and communities. Last year I succeeded in buying a house and now I'm focused on saving money in order to support my family in the years to come. When you think about all the improvements, that's when you feel it!" said NHC member Sara, who financially supports her uncle in his battle with cancer.

Most notably, the study showed that 64% of NHC members considered the most important benefit of co-op membership to be the positive impact on their health. This significantly distinguishes WAGES' green cleaning co-op model from the conventional cleaning industry, where workers risk their health and safety by using harsh and toxic chemicals in confined spaces and performing repetitive motions. Yet they are rarely protected by health insurance. All WAGES-affiliated co-ops use least toxic cleaning methods and provide health insurance for members.

"NHC has helped me in many ways. In the restaurant where I worked before, they used a lot of bleach, and I had a lot of allergies and respiratory problems," said Adela, whose mother is a founding member of NHC. "I don't have those anymore, and I don't get the same aches in my body that I used to, either. Here I feel good physically and mentally. I feel proud to be in a green cooperative and I'm glad that my fellow socias feel the same way," she concluded.

During the study many members shared stories of personal growth since joining the co-op. One socia noted that, thanks to the cooperative, she realized her potential as a strong woman and learned to live on her own terms. "I have learned so much! I always had so much fear before. But now I know I can do things! I have become more independent from my

husband. Before, if I had to run an errand, he'd say, 'Don't go, I'll take you.' But now if I want to run an errand, I just go on my own."

As NHC begins its 6th year and members work toward their future goals, they are taking stock of the impact they've created up to now.

WAGES' oldest affiliated coop, Emma's Eco-Clean, is also taking time at the start of their 11th year to look back, assess, and celebrate their accomplishments, including their recent triumph of reaching nearly $1 million in sales last year.

"Over the course of these ten years, we have enjoyed tremendous successes, including health benefits and good incomes, and the exciting addition of disability insurance for all twenty-six of our members," said Maria Rosales, a founder and, until recently, general manager of Emma's.

WAGES and affiliated co-ops have challenges, and much to be proud of, in these uncertain economic times. The recent launch of Home Green Home is a ray of hope in an otherwise bleak economy, as are the long-term successes of NHC, Emma's, and Eco-Care. The priority for the co-ops and WAGES moving forward is to not only survive the recession, but also continue to grow in order to increase their impact. "That's why we exist: to make a measurable impact in members' lives and earnings over the long-term," emphasized Ivette Melendez, a WAGES cooperative trainer.

Hilary Abell is the executive director of WAGES. The website is www.wagescooperatives.org. AW

Achieving ESOP Sustainability
Managing Your ESOP Repurchase Obligation
Minimize Surprises!

Bill McIntyre

Successful management of the ESOP repurchase obligation is one of the most important aspects of achieving ESOP sustainability.

As ESOP plans "mature" and participants retire or separate from the company for other reasons, some companies have been surprised, even shocked, by costly ESOP repurchase obligations that require the company to come up with large amounts of cash in a year or less, regardless of the company's current profitability or other financial commitments. To achieve sustainability of their ESOP, companies must minimize those surprises.

Typically, the provisions of the ESOP plan are the source of the shocks, and the surprise factor can be greatly reduced by revising the plan to allow for more gradual payouts of ESOP accounts. More gradual payouts help to avoid staggering cash demands on otherwise healthy companies, unplanned sales of ESOP companies that terminate employee ownership of the company, and even bankruptcies.

Every ESOP company has a legal obligation to pay every ESOP participant an ESOP benefit as prescribed in the company's ESOP Plan Document. That payment is optional for the ESOP trust, but it is mandatory for the ESOP company.

The ESOP repurchase obligation is related to many different aspects of the company and its ESOP Plan, and it can be a struggle to manage it together with everything else involved in managing a company successfully. Much of the stress arises from the surprise factor. Structuring ESOP Plan provisions, policies and procedures to minimize the surprise factor in repurchase obligations and to maximize its predictability increases the odds of keeping the company healthy and allowing everyone to sleep soundly at night.

Here are some scenarios of potential trouble caused by repurchase obligations: The ESOP Plan might include a provision that whenever someone terminates employment with the company for any reason, (s)he will receive the ESOP benefit distribution in a lump sum as soon as administratively feasible. The provision reflects the philosophy that "our company wants to be an employee-owned company and not a company owned by ex-employees." At first glance, this seems perfectly reasonable. But this approach maximizes the surprise factor – 100% of the repurchase obligation is a surprise.

What if the stock value spikes after a good year and then a bad year follows? Employees have the incentive to leave and collect the ESOP benefit at the high stock price, possibly causing a cash crisis for the company.

Owners of young ESOPs that have an immediate lump sum payment policy may conclude that paying off departing employees with a lump sum is not an issue at their company because of the small size of ESOP balances. That may be true at first, but ESOP balances have a way of growing over time, and there may be a huge problem when the ESOP is 8-15 years old.

It's almost impossible to guarantee that there will be sufficient cash on hand at all times or sufficient borrowing capacity to fund unpredictable repurchase obligations. The likely outcome: bankruptcy for the company at some unknown date.

How do you minimize the surprise factor in ESOP repurchase obligation? By making the obligation more predictable through the structure of your ESOP Plan.

There are three aspects of repurchase obligation to deal with in minimizing surprises: (1) the nature of an employee's termination; (2) when ESOP benefit distributions begin; and (3) the form of the ESOP benefit distribution. What ESOP plan design will minimize repurchase obligation surprises? continued next page >

Nature of Employee's Termination

Employees can terminate employment in one of four ways: death, disability, retirement, or other termination (quit, fired, laid off) prior to retirement. Death and disability can't be predicted for specific individuals, but they can be actuarially projected for larger populations. For most ESOP companies of 50-250 employees, they can be regarded as unpredictable surprises. Retirement age is specified by the company in the ESOP plan, with a government-prescribed maximum of 65. A company can select any ESOP retirement age less than 65, but it can minimize the surprise factor from early retirements by setting a higher age for retirement. Other termination prior to retirement can be projected based on a company's turnover history for various categories of employees.

Commencement of ESOP Benefit Distributions

Government rules establish the dates for commencement of ESOP benefit distributions for death, disability and retirement. The first payment must be made prior to the end of the plan year after the plan year when the event—death, disability or retirement—occurred. Typically, the first payment occurs within a year of the event. There is little the company can do in structuring its ESOP Plan to minimize the surprise factor of the first payment for early death or disability.

For ensuring the company's survival as an employee-owned enterprise, the most prudent strategy is to delay and spread ESOP benefit payments to the maximum extent of the law.

For other terminations prior to retirement (quit, fired, layoff, etc.), a government rule specifies that the first payment must occur prior to the end of the plan year after the completion of five full years of break-in-service for the ESOP participant. In practice, under this rule, the employee waits about six years before the ESOP benefit distribution commences. Companies can start the ESOP benefit distribution earlier than the six-year wait, but the shorter the waiting period, the less time available to plan for the cash disbursement. An immediate commencement of payments means that the first payment is a surprise. A lump sum payment means that the entire payment is a surprise. A company wanting to minimize ESOP repurchase obligation surprises would take full advantage of the six-year wait.

For companies having an outstanding ESOP note, the company has the option to delay ESOP benefit distributions for other terminations until the ESOP note has been paid off. Using this option eliminates surprise expenses from other terminations, but it creates a balloon ESOP repurchase obligation to deal with after the ESOP note is paid. Not every company will have sufficient cash or borrowing capacity to meet the balloon payment.

Form of ESOP Benefit Distribution

For death, disability, and retirement, government rules prescribe that the ESOP benefit distribution must be completed within five years of the date of the event. Company plans can make the distribution more quickly, but the shorter the timeframe for the payout, the larger the surprise factor.

For other terminations, government rules prescribe that the ESOP benefit distribution must be completed within 5 years of the date of the first payment and that the payments must be in the form of substantially equal payments made at least annually. With really large ESOP accounts (greater than $985,000), payments can be extended an additional year for each $195,000 in the account balance up to a maximum payment term of 10 years. Again, companies can make the benefit distribution more quickly, but the shorter the timeframe for the payout, the larger the surprise factor.

During the waiting period and during the installment distribution period, some company plans convert each ex-employee's ESOP account from company stock to cash to lock in the price per share so that the ex-employee does not suffer from stock price decreases or benefit from increases. However, this situation is the same as an immediate lump sum payout of benefits as far as its impact on the company's available cash is concerned. In both cases, the company (or ESOP) must come up with the entire amount of the employee's ESOP benefit in cash immediately upon termination of employment. That makes for a 100% surprise and creates a nearly impossible problem for successful sustainable financial management.

Minimizing Surprises

For ensuring the company's survival as an employee-owned enterprise, the most prudent strategy is to delay and spread ESOP benefit payments to the maximum extent of the law. This approach also facilitates the objective of having the ESOP at all times (good economy, bad economy - young ESOP, old ESOP - new employee, experienced employee – executive manager, lowest paid employee) provide an incentive for employees to strive for the long-term success of the company. The health of the company is a benefit for all the employees, future as well as current retirees.

Specifically, companies should commence the payment of ESOP benefits for death, disability or retirement with an initial payment equal to the value of one sixth of the common stock in the participant's account made within one year of the event and then make five additional annual installment distributions so that the entire distribution is completed within five years of the date of the event. Each installment distribution would be equal to the value of one sixth of the shares of stock. The amounts paid each year would vary with the stock price.

To minimize administrative costs, companies can set

dollar limits for the number of years of account distribution. For example, an account under $25,000 might be paid in one lump sum; accounts of $25,001-$50,000 might be paid in two installments (one immediate and one a year later); $50,001-$75,000 in three installments; $75,001-$100,000 in four installments, $100,001-$125,000 in five installments; and accounts above $125,000 in six installments over the five years.

For other terminations prior to retirement, companies could commence the payment of benefits after the 6-year wait, then pay out the balance over a 5-year period (up to 10 years for really large accounts). The installment distribution could occur in the same manner as described for death, disability and retirement.

Do companies adopting these provisions avoid repurchase obligation surprises completely? No. Death, disability and unplanned retirements are still surprises. However, the first year payment is only one sixth of the total payout; so five sixths of the payouts due to death and disability has been removed from the surprise factor and can be planned for in subsequent years. Planned retirements are not surprises at all. The surprise factor for other terminations, though, is completely removed. By delaying the commencement of ESOP benefit distributions for six years, the company can plan for them in the comprehensive corporate financial plan.

By adopting these benefit payout provisions into their ESOP plan, companies will not only minimize their repurchase obligation surprises but they will also minimize the potential financial stress of making large cash payments in a single year because of repurchase obligations. What is more, ESOP participants will not be subject to the vagaries of ESOP stock prices. They won't have an incentive to leave and take advantage of an exceptionally high stock valuation. They also won't benefit unjustifiably if, after a wait, a lump sum distribution is made when the stock price is unusually high. Nor will participants suffer unfairly if that lump sum payment is based on a low stock price.

Minimizing surprises should also minimize the need for funding tools that are geared toward enabling a company to handle surprises. Corporate owned life insurance (COLI) and key person life insurance policies should be less necessary with fewer surprises on the horizon.

Modeling future repurchase obligations is an excellent way to explore a company's risk picture and plan for the future. Many managers use their own spreadsheets for their projections; however, there is excellent repurchase obligation software available. *Telescope*™, from ESOP Economics, and Principal Financial Group's *My Principal ESOP Repurchase Liability Solution*℠ (*My PERLS*℠) are the two pre-eminent software packages available today. *My PERLS*℠ is available at no direct cost only to Principal Financial Group's ESOP administration clients. Alternatively, service providers can be hired to prepare ESOP repurchase obligation projections. No matter how it is prepared, a projection of ESOP repurchase obligations will take much out of the realm of the unknown and put in into the category of the known.

With ESOP Plans structured to minimize repurchase obligation surprises, companies can use repurchase obligation software models to more accurately project future repurchase obligations and to include those obligations in the comprehensive financial plan for the company. Successful management of the ESOP repurchase obligation and successful financial planning support the sustainable growth and success of the company.

Bill McIntyre is OEOC Program Director and a former CFO and ESOP trustee at ComSonics. OAW

How Philosophy of Repurchase Obligation Affects Sustainability Practices

	Philosophy: We want to be an employee-owned company, not a company owned by former employees.		**Philosophy: We want to manage our ESOP repurchase obligation successfully by minimizing surprises.**	
ESOP Benefit Distribution	Death, Disability or Retirement	Other Termination	Death, Disability or Retirement	Other Termination
Date for First Payment	Immediate	Immediate	Within 1 Year	After 6-Year Wait
Form of Payment	Lump Sum	Lump Sum	5-Year Installment Distribution	5-Year Installment Distribution
% of Payments that are Surprises	100%	100%	17%	0%
Prognosis	**Cash Crisis, Bankruptcy or Unplanned Sale of Company**		**Successful ESOP & Company Sustainability**	

"Are ESOPs Sustainable?"

Peter Paquette, Claremont Flock Corporation
Keynote Address
2009 Ohio Employee Ownership Annual Conference

Editor's Note: In this most interesting keynote address, Peter Paquette spoke on the need for each company to have a legal and philosophical framework that balances share price with other values. He argued that employee-owned companies should break out of the constraining idea that shareholder value equals solely share price. Shareholder value includes all the special benefits that employees can enjoy when they are owners—excellent health care plans, higher wages, and less quantifiable benefits like participation in the management and governance of the firm. Taking these into consideration in valuing the company might subtract from share price in the short term, but enhance the company's employee owners, its business performance and its long-run sustainability. The company's business strategy, its board of directors, and its senior management should be in agreement on an approach to shareholder value. The philosophy guides the strategy and the strategy guides the company's leadership, shaping choices and decisions in every aspect of its activity. What follows is an excerpt of his remarks.

I'm here to talk about sustainability, as opposed to survivability. Survivability is about what you're going to do next month to meet payroll. Survivability is about what's going to happen short term.

Sustainability is what's going to happen in 40 years. So stretch your mind for a very long period of time. When you think about the issues of sustainability in an ESOP world, the place to begin is trying to define who we are. We begin that in kind of a negative way by saying who we are not. We are not family owned businesses, although we may have family owned businesses that are partially an ESOP. We are not sole proprietorships or partnerships. We're not foreign owned businesses. We aren't private equity funds. We aren't consumer, producer, or worker co-ops, but you can substitute the word co-op for ESOP, and I think that these comments will resonate with you generally.

For sustainability of ESOP companies we need a new language that describes the space we work in and drives our understanding of what success means. There are three ways to get to this new language. We need to redefine some currently used terms to be ESOP specific. We need to eliminate irrelevant legacy language that affects us in odd ways. And we need to craft some new terms, because we don't have the language defined around sustainability and ESOPs. So let's start with a proposed definition of ESOP sustainability.

ESOP sustainability means being employee owned through an ESOP or through a co-op in perpetuity forever, which means 40 years from now you're going to still be an ESOP company, which is kind of an interesting concept since ESOPs were devised in the Employee Retirement Income Security Act of 1974, meaning that they're only 35 years old now. So when I'm talking about in perpetuity, I don't think it's an unreasonable timeframe. The thing that you have to start thinking about is "Where are we going to be decades into the future?"

What I want to ask you is what you think about your ESOP company. Do you believe in the proposition that shareholder value in an employee owned company is solely based on share price and that all the organization's energy should be directed towards maximizing the share price? Only a few of you do. This response is very much in line with those I've gotten from other groups. There is generally a small percentage that does believe in this [share price] proposition.

Let me propose a second proposition: shareholder value in an employee owned company is something other than solely share price, and for the moment I want to leave that undefined or ill-defined.

How many people want to work for a proposition one company? A couple. I think most of you want to work for a proposition two company. But why then do we often have share price as the leading statement of what shareholder value is? That's a question we're going to have to get around to because it drives our behavior.

How many of you in the audience are directors of your company? I want to read what the duties of a director of an Ohio company are, in case you've never heard these before. The Ohio Revised Code § 1701.59(e) says, "for purposes of this Section, a director in determining what the director reasonably believes to be in the best interests of the corporation shall consider the interests of the corporation's shareholders and in the director's discretion may consider any of the following: the interest of the corporation's employees, suppliers, creditors and customers; the economy of the state and nation; community and societal considerations; the long term as well as short term interests of the corporation and

its shareholders including the possibility that these interests may be best served by the continued independence of the corporation."

What this says is under Ohio law you don't have to sell yourself. And when you talk about sustainability, you have to begin to build a framework for that by going back to your company and asking what is your company's shareholder value proposition. This frames your definition of success and will lead directly to the behaviors that your company is going to implement over long periods of time.

Let me substitute a shareholder value proposition that I think most ESOPs subscribe to, and that is that shareholder value in an employee owned company is a balance of share price and the ESOP employment dividend. The ESOP employment dividend is those practices at your company that you implement solely because you are an ESOP. At Claremont Flock, for example, we have a fully paid healthcare plan. Most companies do not have fully paid healthcare plans. Many ESOPs do. They may have above market rates of pay. They may have a culture of employee participation. These are the things your competition doesn't do. These are the things that make you successful over and above what the market is. These are the things that help to drive the performance of your company. That's the employment dividend and I think that one of the interesting things about the employment dividend is that certain aspects of it may decrease share price. They are deductions from income that decrease share price. So most ESOP companies, by virtue of the employment dividend, have already opted to be a proposition two type of company. They are not maximizing share price. As a matter of fact, in the short run, they may decrease share value.

Let me talk about implementing the shareholder value proposition that we've been talking about. You're going to run into the problem of an ESOP world of differing interests. And you're going to have to resolve these in some way that allows you to be sustainable. For example, let's talk about differing interests between the trustee and the senior management. The trustee's basic role is to preserve capital. Senior management's basic role is to risk capital. If you're going to be sustainable over a long period of time these fundamentally differing interests have to be resolved.

Are ESOPs sustainable? Absolutely. We have a list called the Silver List of ESOPs which have been ESOPs for 25 years or longer, and the list is very big. I think that there are some things, though, that you have to believe if you're going to be sustainable. One is an unshakeable belief in employee ownership through ESOPs.

We need to get away from confusing shareholder value with share price. I think you need to articulate your shareholder value proposition. I think that you need to make sustainability a strategic imperative. Corporate culture passes the philosophy of self sustainability from generation to generation. But maintaining it becomes a succession problem. Go out and find a new president who doesn't believe in the ESOP's sustainability and you won't have ESOP sustainability.

Peter Paquette is the vice president and treasurer of Claremont Flock Corporation, an employee-owned company in New Hampshire and an internal trustee of its ESOP trust. OAW

Deciding to Sell: What Should Ohio Directors Consider?

One of Peter Paquette's main points was that directors of corporations should be able to consider factors other than share price when deciding whether to sell the business. He pointed to Ohio Revised Code 1701.59(E) as a model in that regard.

Ohio's corporate laws are different from Delaware, where more than 50% of public companies in the United States are incorporated. Delaware corporate law provides that corporate directors owe their fiduciary duties only to shareholders (meaning maximizing share value), and obligations toward other constituencies are excluded.

Why is Ohio law so different? In a paper titled "Competing With Delaware," *Akron Law Review* Volume 40.1(2006-2007), David Porter noted that Ohio corporations are largely native to the State, are chartered by the State, essentially for the benefit of the State and its citizens. This connection between corporations that are organized in Ohio, Ohio jobs, and the Ohio economy, has led the Ohio legislature to provide strong statutes to protect them, including giving directors of Ohio corporations the discretion to consider constituencies other than shareholders in making any decision.

The first three items in (E)—the interests of the employees, suppliers, creditors and customers; the interests of the economy of the state and nation; and community and societal considerations—preceded 1986. The fourth item, permitting a director to consider whether the interests of the corporation and its shareholders can be best served by remaining independent, was added in 1986. According to Ohio State Senator Tom Sawyer, who was then Mayor of Akron, it was prompted by the hostile takeover attempt on Goodyear Tire & Rubber Company of corporate raider Sir James Goldsmith in that year. The takeover attempt failed and the legislature added some significant protections against such efforts in the future.

Paquette's basic point is also bolstered by a Joint Department of Labor/Department of Treasury Statement of Pension Investments, issued January 31, 1989. The Statement says that fiduciaries must manage pension plan investments prudently, defining prudence as what is in the economic best interest of a plan's participants and beneficiaries, but it does not mandate that the plan fiduciary automatically tender shares held by the plan to capture the premium over market represented by the tender offer. The Statement further notes it would be appropriate to weigh a tender offer against the underlying intrinsic value of the company and the likelihood of that value being realized by current management. It would also be proper to weigh the long-term value of the company against the value presented by the tender offer. OAW

The 23rd Annual Ohio Employee Ownership Conference

Putting Your Employee Ownership to Work

For the third year in a row, attendance topped 400. Some **418** people registered for the **23rd Annual Ohio Employee Ownership Conference April 17th at the Hilton in Fairlawn, Ohio,** an impressive turnout in the current deep economic recession**.** After welcoming remarks from **Leah Anglin-Walsh, Ohio Department of Development**, **John Logue, OEOC Director**, addressed the conference and set the stage for the rest of day's events. Two keynote speakers were featured this year: **Peter Paquette, Vice President and Treasurer of Claremont Flock Corporation** and **Robert Eckardt, Senior Vice President of The Cleveland Foundation**. Their edited remarks appear in this newsletter and on the OEOC's website at www.kentoeoc.org.

Following the plenary, the morning round of concurrent workshops offered a choice of seven panels featuring employee owners as well as professional service providers. The panel on the ***ABCs of ESOPs for Employee Owners*** featured **Attorney Deborah Groban Olson** and **Joe Marx of The Principal Group.** It was moderated by **Gregg Cramer, Greater Akron Chamber**. People attending the panel on ***ESOP Committees: Building an Ownership Culture*** heard **Herb Hartsoe and Gail Jennings of EBO Group**, **Stephanie Kovacs and Bill Brancovsky of Oswald Companies, and Shawn Richard and Jeff Clutter of Palmer-Donavin Manufacturing** discuss their companies' ways to organize and sustain ESOP awareness and communication. **Bob Taylor, Falcon Industries**, served as panel moderator.

The topic of ***Best Practices in Board Governance*** was ably handled by **Dave O'Brien, Oswald Companies; Jack Veale, PTCFO; Marie Schenkel, RJ Martin Electrical Contracting, and Jeff Evans, The Will-Burt Company.** The panel was moderated by **Ed Schmitt, Riesbeck Food Markets.** The technical panel titled ***ESOP Vesting, Diversification and Other Administrative Issues Important in a Downturn*** was moderated by **Van Olson, Van Olson Law Firm,** and featured **Barbara Clough, Blue Ridge ESOP Associates; Tina Fisher, SES Advisors, and Florence Zabarsky, Zabarsky & Associates.** The panel of **David Light, American Working Capital/Yucaipa Company; Ben Wells, Dinsmore & Shohl,** and keynoter **Peter Paquette, Claremont Flock,** continued the discussion on ***ESOP Sustainability.*** Serving as moderator was **Tim Regnitz, Crowe Horwath**. The session on ***The Employee-Owned Evergreen Cooperatives in Cleveland*** featured keynoter **Bob Eckardt and Lillian Kuri, Cleveland Foundation,** along with **Jim Anderson, OEOC.** Moderating the panel was **Bruce Short, Nationwide.** Using ESOPs in succession planning was discussed by the panel ***Selling your Company to your Employees***. The panel consisted of **Mary Giganti** of **Waldheger Coyne** and **Davin Gustafson** of **Apple Growth Partners**. The moderator was **Tom Zucker, Edgepoint Capital Advisors**.

Lunch featured awards and a presentation by **Karl Warnke, President & CEO, The Davey Tree Expert Company,** on the company's ***30 Years of ESOP Sustainability*****. Maumee Authority Stamping** received a **2009 Ohio Employee Ownership "Against All Odds" Award for restarting a Ford parts plant in Maumee**. CEO **Keith Obey,** who led the effort, accepted the award. The conference also saluted several of **Ohio's Pioneer Employee Owners,** folks who have been with their respective companies since the early days of employee ownership in the 1970s and early 1980s. Receiving special recognition were: **Howard Bowles, Jack Swayze, Richard Foote, David Joy and George Gaumer of The Davey Tree Expert Company; Karen Richmond and Ralph Stawicki of Fastener Industries; Russ Gregory and Craig Maltby of The Ruhlin Company; and Sandy Zook and Melanie**

Dragoun of Voto Manufacturers Sales.

The rest of the day featured discussions ranging from ESOP technical issues to ownership culture. **Jay Simecek, Ohio Employee Ownership Center**, led a session on ***How Can I Affect the Bottom Line?*** The panel also featured **Floyd Griffin, Patio Enclosures,** and **Ulrich Nehring, ACRT.** The panel on ***Telling Your Story, Sharing Your Vision*** featured **Sandra Reid, The Davey Tree Company; Joshua Platt, Mills James Productions, along with Tammy Pepper and Erin Walker of Thomson-Shore.** The panel was moderated by **David Erdal, Baxi Partnership.** ***Communicating ESOP Value in Trying Times*** focused on making a difference in an employee owned company and was discussed by a panel that included **Tom Smith, Bardons & Oliver,** and **John Burns, C.O.W. Industries.** The discussion was moderated by **Jim Anderson, OEOC.**

A technical session on ***ESOP Sustainability & ESOP Stock Valuation*** was moderated by **Phil DeDominicis, Menke & Associates,** and featured panelists **Rick Schlueter, ComStock Advisors,** and **Scott Miller, Enterprise Services. T**he ***ESOP Legal Update*** panel provided information on new laws, rulings and regulations affecting ESOPs and ESOP trustees from **Vaughn Gordy, GreatBanc Trust Company; Tim Jochim of Kegler, Brown, Hill & Ritter, and Brian Hector of Morgan, Lewis & Bockius. Leslie Lauer, UBS Financial Services**, moderated. Folks attending the panel on ***Government Financing & Funding for ESOP Firms*** heard from **Mark Shanahan, Ohio Air Quality Development Authority; Jim Cogan, U.S. Department of Agriculture, and Mark Hansel, U.S. Small Business Administration.** Serving as moderator was **Sue McKitrick, Ohio Department of Development.** The panel on ***Selling Your Company to Your Employees: The Co-op Model*** was designed for companies too small for an ESOP. Co-op representatives on the panel included **David Baird, Select Machine,** and **Leslie Schaller, Casa Nueva Restaurant. Mark Stewart, Shumaker Loop & Kendrick** provided legal expertise. The panel was moderated by **Don Jamison, Vermont Employee Ownership Center.**

The last round of concurrent panels followed an afternoon coffee break sponsored by **SES Advisors**. ***What Employee Ownership Means to Me*** was discussed by several of the "pioneer" employee owners. Participating on this panel were **Karen Richmond** and **Ralph Stawicki** of **Fastener Industries**; **Craig Maltby** of **The Ruhlin Company**; **George Blind** of **S.G. Morris**, and **Sandy Zook** and **Randy Frampton** of **Voto Manufacturers Sales.** The moderator was **Karen Thomas, OEOC.** Participants interested in ***ESOP Fiduciary Responsibility: Guide to Recession Survival*** heard from **Neil Brozen, BNC National Bank; Merri Ash, First Bankers Trust Services; Dale Vlasek, McDonald Hopkins Company; and Jeff Gelburd, Murray Risk Management & Insurance.** The discussion was moderated by **Ray Lampner, Brockman, Coats, Gedelian & Company. Jim Anderson** and **Jay Simecek** of the **OEOC** facilitated discussion at the **Leadership & Management Current Issues Roundtable.** Repurchase obligation in ESOP companies is a fact of life, and **Pete Shuler of Crowe Horwath, Judy Kornfeld of ESOP Economics, Jim Steiker of SES Advisors and Radd Reibe of Stout Risius Ross** dealt with this issue on the panel ***ESOP Sustainability: Repurchase Obligation & Distribution Policies.*** Serving as moderator was **Richard Tanner, Ownership Advisors, Inc.** The co-op track at the conference finished off with a panel called ***Growing Entrepreneurs: Meet Spain's Mondragon Cooperative Corporation*** that featured **Mikel Lezamiz** of the **Mondragon Cooperative Corporation** along with **Ted Howard** of the **Democracy Collaborative**. The panel was moderated by **Rod Kelsay**, **Mid-American Cooperative Council**.

Following the formal program, the discussion continued in a relaxed atmosphere at the closing reception. At the end of the day, our position as the best one-day ESOP conference in the country was strengthened! We thank everyone who helped make the conference the largest employee ownership event in the region and we look forward to seeing even more folks next year as we celebrate the **24th Annual Ohio Employee Ownership Conference to be held Friday, April 30, 2010.** Mark your calendar. OAW

Left, the Ohio Employee Ownership Center's "Pioneers of Employee Ownership" from left to right: Russ Gregory and Craig Maltby of the Ruhlin Company; Karen Richmond, Forrest Franklin, Ralph Stawicki of Fastener Industries; George Blind of S. G. Morris; Sandy Zook, Melanie Dragoun and Randy Frampton of Voto Manufacturers Sales. Above, conference participants assembled for the morning plenary session.

Revitalizing Communities through Employee Ownership

A Unique Venture in Cleveland

Bob Eckardt, Cleveland Foundation
Keynote Address
2009 Ohio Employee Ownership Annual Conference

Today I will share with you the exciting efforts we have under way to revitalize an important part of Cleveland and the key role of employee-owned businesses in those efforts. Our project is unique and creative, and is already gaining the attention of national audiences interested in urban revitalization and particularly the topic of how to anchor jobs and wealth in a community.

Allow me first to lay the groundwork by talking briefly about the Cleveland Foundation. The Cleveland Foundation, established as the world's first community foundation in 1914, was a groundbreaking concept. The idea was to pool many gifts from many people into a single, great and permanent endowment for the betterment of current and future residents.

Unlike a private foundation like Gates or Rockefeller with one donor, our funds come from a variety of sources and are invested in perpetuity with the earnings distributed to worthy organizations or causes.

Annually we award more than 2,800 grants ranging from a few hundred dollars to several million dollars. Last year, we awarded nearly $85 million to area nonprofit organizations and projects.

While we are best known for our grantmaking role, it really is only part of our job. Just as important is the leadership role we play in our community. Because of our resources, our objectivity, and our ability to take the long-term view, we are in a unique position to discern our community's needs, look beyond the interests of any single institution, act as a bridge between sectors, and focus varied efforts on common goals to improve the community. It's what we call being a collaborator, facilitator and convener.

About five years ago, we identified University Circle as an area where we should strategically invest. The Foundation has been strongly committed to neighborhood revitalization and downtown redevelopment, and supports a wide array of projects to help achieve these goals. Our thinking was that if we could concentrate our dollars and attention on a defined geographic footprint and build strong partnerships with institutions within that footprint, we could achieve a greater impact.

University Circle has long been one of Cleveland's brightest jewels. Its world-renowned cultural institutions are a legacy of the city's industrial past – like the Cleveland Museum of Art and the Cleveland Orchestra at Severance Hall. It is also home to educational institutions including Case Western Reserve, the Cleveland Institute of Music and the Cleveland Institute of Art.

We were drawn to this area because it was undergoing an investment boom of sorts. The area's large, or "anchor," institutions were growing and undertaking substantial capital improvements. What's more, we noted that significant investments were also being made by major institutions that were nearby but fell outside the traditional boundaries of University Circle – most prominently the Cleveland Clinic and the Veterans Administration.

Despite all these positives, the area also has immense challenges and dichotomies. The surrounding neighborhoods are among the most underserved and disadvantaged in the city. Annual median household income is under $18,500. Retail and service outlets and other amenities are sorely lacking. Unemployment is high, educational attainment is low, housing is distressed, and relatively few job opportunities are available.

The large health care, educational and arts institutions spend billions of dollars each year on salaries, procurement and real estate development, but little of this massive economic activity flows into and stays within the neighborhoods. What's more, the institutions historically had no close association with their neighborhoods and no working relationship with one another. Despite substantial investments in their own facilities, they shared no information about their projects or plans with their neighbor institutions. In essence, each acted as if the world ended at its respective property line.

The heart of our effort is making sure that, as the big institutions grow and prosper, the neighborhoods benefit as well. So our neighborhood efforts, initially focused on housing, evolved into what we call an "economic inclusion" approach.

Our mission became not only to create jobs, but also to generate wealth for low-income residents while also stabilizing neighborhoods. We began to explore how we could anchor and create businesses that employ residents and build wealth for their neighborhoods. As you know, employee ownership is an excellent tool to accomplish that. It has a proven track record of generating jobs, anchoring capital within neighborhoods, promoting asset accumulation and building viable economic enterprises.

Here is a critical part of the equation. New employee-owned businesses, largely structured on the co-op model, would be developed to match the procurement needs of the large institutions.

Getting these institutions to see the benefits of purchasing locally did not happen overnight. We conducted over 100 interviews to understand their procurement processes and what kinds of goods and services they needed and to make sure it would be a win-win proposition for them and the new businesses.

Think about it: businesses hire from the neighborhood, giving people jobs and an equity stake in the enterprise; profits stay in the neighborhood, continuing to circulate and sparking other business opportunities and further wealth. Indeed, the evidence is that employee-owned companies have a higher multiplier effect than conventionally owned firms. In short, we foresee these businesses empowering the whole community and serving as a catalyst for ongoing revitalization.

Can employee-owned businesses create wealth in low-income areas? We strongly believe the answer is yes! While this is a new venture, we believe the evidence supports our case.

Now let me tell you a little about the businesses that we are creating.

Let me preface this by saying that all businesses will give priority to hiring local neighborhood residents and to environmental sustainability. We felt it important to build on the growing national momentum to green our cities and to create environmentally sustainable businesses. We believe this makes not only good environmental sense but good business sense.

Our first co-op, the Evergreen Cooperative Laundry, launches in June. The laundry is an industrial-scale, environmentally advanced, state-of-the-art, commercial laundry providing services to area hospitals and assisted living centers. Its first major contract is with Judson, a retirement community. As it grows, the laundry could employ 50 neighborhood residents, all of whom will make a wage greater than the industry standard and each of whom will, over time, become equity owners of the enterprise, building wealth where it is rare, perhaps as much as $65,000 over ten years for each employee-owner.

Next up will be Ohio Cooperative Solar, or OCS, a community-owned business that will own, install and maintain solar panels. OCS's solar panels will be installed on the rooftops of the area's major nonprofit institutions in a lease-back arrangement. Energy generated will be sold through a power purchase agreement with the building owner. OCS will serve as a training platform for employees, and the job count will grow rapidly to include sales, installation, distribution and maintenance of solar panels. This venture was inspired by the Cleveland Clinic.

Now undergoing a feasibility study is Evergreen City Growers, a commercial-scale, year-round hydroponic greenhouse that will grow and sell produce matched to the needs of area hospitals and other institutions. It would cover five to 10 acres. Its first product is slated to be leafy green vegetables, which are now produced almost entirely out of state. When fully functioning, it could employ about 75 neighborhood residents.

Other businesses under development or being studied are a community owned and written newspaper and a housing deconstruction and reuse business, to address many of the foreclosed houses in the area and specifically target recently released prisoners as employees. In addition, we anticipate converting some existing businesses into employee ownership and also starting up labor intensive businesses, such as home care, janitorial and food services that do not require high capital inputs, but provide a significant number of jobs.

It is important to mention that we have set up a financing and support vehicle for our growing network of community-based businesses. Our fund, housed at ShoreBank Enterprise Group, can be replenished off the success of existing co-ops and gives us the ability to seed new co-ops without having to recreate the wheel each time. For the first five years, staffing for the fund will be provided by OEOC. The fund will also provide technical support and training to potential entrepreneurs and assist with the start up of other promising employee-owned businesses in the area. We estimate that the $10 million we are trying to raise for this fund will be instrumental in capitalizing 10 community based businesses, employing some 400 local residents, and leveraging an additional $30 million of investment. Although we are seeking other funding, we are excited that our Board has committed $3 million to this Fund.

There is great interest in our efforts among national foundations, social funders and nonprofit banks. They believe we have a promising concept for comprehensive community development and that we could become a model for how cities, particularly older industrial cities, can leverage remaining assets to create jobs, address poverty, and build wealth – all while benefiting the environment.

Are we optimistic? Yes! But I admit we can't call ourselves a model just yet. It is far too early to see results.

But, supported by strong partnerships, we are trying something new, and we think we're onto something big. Greater University Circle, an internationally renowned center for research, education, medical care and culture, can be nestled in neighborhoods that are highly desirable places to live. And we believe one of the engines behind this transformation will be a thriving network of employee-owned businesses.

Bob Eckardt is senior vice president for programs and evaluation at the Cleveland Foundation OAW

The Evergreen Cooperative Laundry Begins Construction

Just the First Step ...

Jacquelyn Yates

Although the Evergreen Cooperative Laundry, which poured concrete on May 28, 2009, will be a small enterprise within the multibillion dollar initiative to redevelop Cleveland's Greater University Circle area, its many creators have launched it with the expectation that it will play a very large role in establishing a new generation of worker cooperatives in Cleveland.

The laundry is part of the Cleveland Foundation's economic inclusion strategy to reach out to the Greater University Circle (GUC) neighborhood residents with an approach that promises more visible success than past efforts. "For years, I ran job training programs worth hundreds of millions of dollars, and yet when I looked around the neighborhoods, I thought, 'Where is the impact?'" said India Pierce Lee, Program Director for Neighborhoods, Housing, and Community Development at the Cleveland Foundation.

Lee's thousand-watt smile is on full power when she talks about the plan for the cooperatives. "This is a way to get the residents long-term employment and ownership," she says.

The idea of cooperatives and employee ownership was first raised in a community wealth-building roundtable in December 2006, sponsored by three philanthropic groups: the Cleveland Foundation, the Gund Foundation and the Sisters of Charity. They invited the Democracy Collaborative at the University of Maryland, a nonprofit group with a philosophic commitment to economic stability as the foundation of democracy, to organize the event. Said Ted Howard, Executive Director of the Democracy Collaborative, "Our view is that where democratic life gets created is really in communities where people reside. Not that national policy isn't important, but that if you want a "big D" democracy in which national life is really healthy and meaningful and vibrant, in which people express themselves as strong democratic citizens, where that really gets built is on the ground, in communities. There are certain conditions that need to exist that allow for that strong, healthy democratic life to flourish. One of which is a sufficient amount of economic stability in the community. Not that there shouldn't be growth and expansion, but stability so that people are not scrambling for their next job and can't afford food for their family."

If building democracy through building economic stability was to be the philosophy of the GUC project, how could it be implemented? "You must build assets. You must develop long term leadership, and you need assets to do that. Without that, you have the boom and bust of community development: because the people who you help succeed leave, then drugs and crime grow back and the community crashes again. This is the cycle that faces so many community development corporations over and over. The trick to avoiding this cycle is to anchor both people and institutions by building assets in the community," stated Cicero Wilson, CEO of Mid-Bronx Desperados Corporation at the December 2006 roundtable.

Evergreen gets under way: from left to right, Dick, Operations Manager, Evergreen Cooperative Laundry; Jake, a prospective employee; Jill, Executive Director, Towards Employment; Willie, a prospective employee; and Jim, Program Coordinator at the Ohio Employee Ownership Center.

Evergreen Cooperative Laundry (ECL)

A few participants at the roundtable were the ones who identified the market possibilities for a laundry. It will be up to the laundry to compete for business and deliver a quality product. A feasibility study revealed that although commercial laundries are known to pay low wages, they are in fact profitable businesses whose earnings go to owners and shareholders, not the employees. Making the employees owners through a cooperative meant that an employee-owned laundry could immediately offer jobs paying a little better than the going rate for such work, offer better benefits and also be a wealth-builder for employees over the years.

To get the laundry up and running, the Ohio Employee Ownership Center provided from its staff Jim Anderson, a former CEO experienced with employee ownership and large-scale industrial processes. Visiting some operating laundries and prospecting for customers in the region, Anderson, with business consultant Stephen Kiel, identified a potential customer base in the 10-county area around GUC. They found 53 hospitals and 259 nursing homes washing an estimated 246 million pounds of laundry per year. Although many institutions do their laundry "in house," Anderson found that ECL could do it more cheaply, with a greener process. The institutions could use their current laundry space for profitable activities and retrain and redeploy their current laundry employees into better jobs in their growing businesses. It was a solution where everyone would benefit.

"We can probably break even at 2 percent of the market, make money at 3 or 4 percent, and we're still a very small share of a growing market," observed Anderson. Kiel, who wrote the business plan for the laundry, observed, "The most important thing is that we're not looking to penetrate [the market] a great deal in order to reach our hurdle. We've got the footprint and the capacity to do 15 million pounds per year, but at 10 million pounds we're looking to penetrate 4% of the marketplace. We think that is a practical challenge and something that is achievable."

As a legal entity, a cooperative is a private company equally owned and democratically controlled by its members, in this case its employees. The laundry will start operations with 25 employees. If business is good, it will add 15 more employees on a second shift. Cooperatives usually begin with a few workers pooling their work and their small personal funds to build up the enterprise. However, the laundry must have expensive machinery from the outset. It will receive a substantial capital investment from foundations and public investment to purchase its equipment and help from state and local government to train its employees. Management, provided by the OEOC, will hire employees from the neighborhoods who will then become co-op members after meeting the probationary period and applying to join. They will pay a one-time membership fee through a wage check off.

Anderson and Kiel planned for six months to launch the laundry -- two months to finalize and order equipment, two months to install the equipment, and two months of training for the employees. The equipment was ordered on July 2, 2008. But funding proved more difficult to obtain than anticipated, delaying the opening from late winter 2008 to late summer 2009.

Modern commercial laundries are capital intensive, and lenders are always dubious of start-ups. In addition, the timing was bad: ECL's search for financing kicked into high gear about the time the 2008 banking crisis shut down lending. Putting the financing together took six months longer than expected and required Cleveland Foundation guarantees to First Merit, the local commercial lender which ultimately put in half the loan. Shorebank, which stepped in for the other half, got first position on the machinery and equipment, enhanced by the fact that it owns the real estate. Most of the financing came from the City of Cleveland, the Cleveland Foundation, and publicly subsidized New Market Tax Credits through US Bank (See table below). The financing could never have come together without the commitment and support of the Cleveland Foundation.

Financing Evergreen Cooperative Laundry

Senior debt:	
First Merit (local commercial bank)	750,000
Shorebank	750,000
City of Cleveland	1,500,000
"Equity" (sub-debt through Evergreen Coop Development Fund)	
New Market Tax Credits	1,500,000
Cleveland Foundation	750,000
Working capital:	
City of Cleveland	200,000
Common Wealth Revolving Loan Fund	250,000
Total	**5,700,000**

The laundry washing and drying equipment is made in the U.S., and it is the very latest and most efficient. To reduce the energy needs of the laundry, heat from the used water will be recycled to heat clean water and the laundry will use the "greenest" chemicals acceptable to its customers. Skylights will let in natural daylight, and there are plans to add rooftop solar panels to further conserve gas and electricity.

The laundry building is located in the Shore Bank Complex on 105th and Elk in the Glenville neighborhood, near the boundary of the GUC project. The facility is on a bus line and there is nearby daycare for workers.

An experienced manager is already on staff as well as a maintenance engineer and a leader for operations. These three key employees will receive specialized training and together they will train the other employees.

The final two months of startup will be devoted to training the rest of the employees. With a workforce drawn from people who may have been out of work for a long while, there will be substantial training for all jobs. Anderson said, "There were four training issues that we knew we needed to address: (1) basic job skills; (2) environmental sustainability practice/procedures; (3) equipment operations and (4) employee-ownership training.

continued next page >

"And there's a fifth kind of training that goes to helping families to function when their main problem-solver and main wage-earner is at work. We're going to have, on site, someone who can say, 'You have responsibility to your family and to your job. Let's figure out how to get somebody in your home to deal with those [family problem] issues in the future.'

"The training is definitely connected to our whole business picture: We're going to have higher quality and lower costs, because we're going to have significantly reduced turnover. Being an employee owner, with your own vested account generating income and funds for you in the future, is going to provide some glue to keep you here in the company."

Despite its annual goal of 5 million pounds of laundry per year at startup, expanding to perhaps 15 million pounds over 10 years, Evergreen Cooperative Laundry isn't expected to take anyone's job. Health care laundry is a growing business area, with nursing homes and hospitals flourishing and expanding to serve the growing number of retirees.

Growing Employee Ownership: The Evergreen Cooperative Development Fund

However, the horizons for Evergreen reach beyond creating one successful business. The laundry is expected to be just the first new employee owned enterprise in the GUC. Additional business opportunities on the horizon include a solar panel installation and service company and an industrial scale greenhouse. After repaying its startup debts, each successful cooperative will contribute a small portion of its profits to the Evergreen Cooperative Development Fund. It will be a nonprofit fund used to start new cooperative businesses in GUC. Says Howard, "It will be a kind of venture capital fund targeted specifically at cooperative development."

Having a variety of cooperative enterprises going at one time will spread the risks of failure and increase the probability that some will succeed. And if just some succeed, they can grow and expand to employ more neighborhood residents.

How long will all this take? Howard observes that it took a long time for economic decline in Cleveland to get to where it is today. "In the 1950s there were over 800,000 people who lived here and now there's less than 450,000."

Jacquelyn Yates is Research Director at the OEOC and Editor of Owners at Work. She is associate professor of political science at Kent State University. OAW

Coming in the Next Issue...

Karl Warnke, CEO, Davey Tree, on Davey's 30 years of employee ownership

Bill McIntyre, OEOC, on how ESOP companies can deal with unsolicited offers

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Ohio's Employee-Owned Network
Fall 2009 Events

Thurs., June 18, NE OH
ESOP Forum: Managing Current Legal, HR and ESOP Challenges

Wed., June 24, NE OH
Employee Ownership Leadership: Put Your Employee Ownership Culture to Work in Tough Times

Fall TBA
CEO and CFO Networking Dinner

September 10, Cincinnati
ABCs of ESOPs

September 16, NE OH
ESOP Board of Directors Forum

September 23, Toledo
ABCs of ESOPs

September 30, Cincinnati
ESOP Fiduciary & Administration Workshop

October 15, NE OH
Building an Ownership Culture

October 21, Kent
ABCs of ESOPs

November 5, Columbus
How Can I Affect the Bottom Line?

November 18, NE OH
ESOP Fiduciary Workshop

November 24, NE OH
Open Book Management

December 9, NE OH
ESOP Communication & Teamwork

To register for events, call the OEOC at 330-672-3028 or email kthomas@kent.edu

Check out the OEOC's new website

www.oeockent.org

Let us know what you think!

Other Events of Interest

August 13-15, 2009
The Employee Ownership Foundation - Employee Owner Retreat
Chicago, IL
call 330-672-3028 for details

August 19, 2009
The ESOP Association OH/KY, IN Chapters - 8th Annual Tri-State ESOP Conference
Louisville, KY
email karrie@esopchapters.com for details

September, 13-16, 2009
National Cooperative Business Association - 15th Annual Conference for Purchasing Cooperatives
Austin, TX
Call 202-638-6222 for details

October 6-8, 2009
National Center for Employee Ownership - The ESOP Company Symposium
St. Louis, MO
Call 510-208-1300 for details

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