COOPERATIVE DEVELOPMENT INSTITUTE
The Northeast Center for Cooperative Business

COVID-19 and Maine's Economic Recovery

From:
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To:
Governor Mill's Economic Recovery Committee
c/o Co-Chairs Josh Broder and Laurie Lachance

Despite the staggering number of workers who've lost their jobs in the last few months, the largest single source of avoidable job loss over time is actually from business closures due to owner retirement. This is a trend that will only accelerate, as a generation of baby boomer business owners look to retire, and, as a more immediate threat, face the uncertainty and upheaval caused by the current economic and public health crises and decide to "throw in the towel".

According to national surveys, 79% of business owners want to retire within 10 years, 60% in less than 5 years, and 33% in less than 3 years. However, only 15% of businesses successfully transition to the next generation in the family, and only 20% of commercial listings actually sell. So assuming that the kids will take over, or someone else will buy your business, is a risky proposition even in the best of times.

While half of business owners nationally are over age 50, in many rural regions, half are over 60. And for small businesses with more than 15 employees, 77% are owned by older business owners. In short, the ominous trends represented in the national data are all the more imminent and acute in Maine, given we have the oldest population in the country.

Too often, the default option ends up being liquidation and closure, and the smaller and more rural the business, the greater the likelihood of that outcome.

This is what Maine was facing in "normal times", but the coronavirus has made a threatening situation much worse. Many businesses may not survive. National survey data from Main Street America show the precarious position of many small businesses - roughly 30% said they would permanently close if the economic shutdown lasts for 2 months; another 35% would permanently close if it lasts for 3-5 months. Only slightly more optimistic, a US Chamber of Commerce survey shows 43% of small business owners say they have less than 6 months before a permanent closure is unavoidable. Business bankruptcies jumped

20% in March, 26% in April, and 48% in May. Older business owners, already thinking about how to retire, are the least likely to be willing to take on debt and put in the work and time required to rebuild and the most likely to suddenly and permanently close.

For the state as a whole, these twin crises are exacerbating economic inequality, racial disparities in employment, wealth and health, and the precarious livelihoods of poor people. The true and long-term cost will likely only be known later in the fall, as necessary public health measures and lack of consumer confidence throttle the tourism season that generates the family, business and tax income this state needs to carry it through the year.

How to respond?

To make the best of a bad situation, we need to act quickly and comprehensively, aligning new and existing policies and resources to pursue an impactful strategy to preserve small businesses and jobs.

Whether for those that were spared the worst or those on the edge of survival, the most plausible option for saving many businesses and jobs could be an employee buyout. Ideally, a larger group of workers could form a cooperative to buy the business, but it may be one entrepreneurial employee willing to take over, or a small group of managers. The point is, the workers who have the most at stake are also the best positioned to "keep the lights on".

A coordinated, comprehensive, "rapid response" approach to identify and reach out to these business owners and provide education and technical assistance around the process and options for exit planning would help minimize sudden, disruptive and often preventable business closures that cost jobs and community assets. Methodical, paced exit planning is still relevant for and needed by many businesses that have been spared the worst of the current crisis, but for a growing number of businesses time is of the essence.

Policies to consider:

- Maine, like all states, already has the makings of this response, as well as the resources. Federal tax dollars from the Workforce Innovation and Opportunity Act already flow into Maine and, in part, fund "Rapid Response" teams that can act quickly when a business is closing to assist dislocated workers access job training and income, employment and other supports. However, by being focused in strategy and proactive in identifying and reaching business owners, there is an opportunity to support a wide number of employee buyouts, keeping the businesses from closing and the workers from being dislocated in the first place.

  Unfortunately, many in the workforce development system are not even aware that WIOA statute explicitly identifies outreach, feasibility studies and training to support employee buyouts as an allowable use of funds. This strategy of business owner outreach and education coupled with worker training in business and financial skills was piloted in Washington County and funded by the Gorman Foundation, is now being expanded throughout Eastern Maine through a partnership of the Northeast Workforce Development Board and the Cooperative Development Institute, and could quickly be taken to scale statewide.

- Numerous states allow laid off workers to access their UI benefits for the purpose of starting a small business, eliminating job search requirements and providing wrap around business development services. We should be doing the same and could focus the effort on supporting those who want to work together to take over a business from an owner who wants out.

- Small Business Development Centers could coordinate with this strategy, providing business and financial planning and training for workers attempting an employee buyout. In fact, the recently enacted Main Street Employee Ownership Act mandates that SBDCs offer services and trainings that support worker cooperative and ESOP transitions, so this specific strategy should already be on their radar.

- Numerous states are, or are considering, offering tax and other incentives for selling a business to the workers. A growing number of states have established Employee Ownership Centers to provide education, training and technical assistance for businesses considering employee buyouts. In Maine, LD 1520, which was passed unanimously by the Legislature's Taxation Committee, House of Representatives and Senate, would do both of these things. LD 1520 is only awaiting the Appropriations Committee and Governor to approve the funding.

- Family Development Accounts are special savings accounts for low-moderate income people to save money for specific purposes, including starting a small business. Historically, FDA savings were matched so there was a strong incentive to save. In the past, Maine offered a tax credit to encourage private citizens to contribute to FDA programs so matching funds are available to support low-income workers' savings, but this state incentive was eliminated by the previous administration. LD 1305, another bill under consideration in this current legislative session, would restore this incentive for private citizens to contribute to FDA match programs. These funds would be particularly helpful to workers saving to build equity so they can buy out their business.

- California is considering emergency legislation to invest in critical support for employee buyouts of otherwise healthy small businesses. The funding would come from multiple sources (e.g. CARES Act, Workforce Innovation and Opportunity Act funding, and the General Fund) and would fund education, technical assistance, and forgivable loans to businesses that transition to worker ownership, saving jobs and struggling small businesses across the State.

This list is obviously not exhaustive. Rather, it is a sampling of new and existing policies and resources that can be aligned to pursue an impactful, innovative strategy to preserve small businesses and jobs.

Every business will not be saved, let alone every job. But we should prioritize a strategy that is arguably the most plausible approach for saving some of these businesses in the short term, and that offers those workers an opportunity to improve incomes and build wealth through ownership over the longer term.

Research shows that employee owned firms are more profitable and productive, create more jobs in the good times and lay off fewer workers in the down times. One recent study showed that employee-owned firms were much more successful at attracting and retaining young workers and greatly improved their incomes, household wealth and job tenure. Another recent study showed that lower income workers (particularly workers nearing retirement) in employee-owned firms had dramatically higher household wealth, and employee ownership significantly narrowed the gender and racial wealth gap.

Throughout Maine, there are grocery stores, cafes, coffee roasters, construction companies, renewable energy companies, farm businesses, and insurance agencies that are owned by the workers. They are a model for how an economy, even in the face of unprecedented threats, can be made to work for working people and their communities.

For further information about how cooperative and employee ownership can help create a more vibrant, resilient and sustainable economy in Maine:

Taylor, Davis, and Rob Brown. "Owning Maine’s Future: Fostering a Cooperative Economy in Maine." *Maine Policy Review* 26.1 (2017) : 23 -34, https://digitalcommons.library.umaine.edu/mpr/vol26/iss1/5/

Owning Maine’s Future: Opportunities and policies for growing a cooperative economy in Maine, a report by Rob Brown et al, Cooperative Development Institute