STATEMENT OF
THE OHIO EMPLOYEE OWNERSHIP CENTER
KENT STATE UNIVERSITY
KENT, OH

TO
SENATE COMMITTEE ON HEALTH, EDUCATION, LABOR AND PENSIONS (HELP)

AT
FIELD HEARING
VERMONT STATE HOUSE
MONTPELIER, VT

ON
"INVESTING IN AMERICAN WORKERS:
THE BENEFITS OF EXPANDING EMPLOYEE OWNERSHIP

WITH EMPHASIS ON PROPOSED LEGISLATION
WORKER OWNERSHIP READINESS AND KNOWLEDGE (WORK) ACT
AND
THE U.S. EMPLOYEE OWNERSHIP BANK ACT

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WRITTEN TESTIMONY

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The Ohio Employee Ownership Center (OEOC) at Kent State University appreciates this opportunity to present its views and your willingness to consider them.

Background re Ohio Employee Ownership Center

The OEOC is a state-supported, non-profit, university-based program established in 1987 to provide information and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. The OEOC also provides ownership training to employee-owned firms. The OEOC is one of only three active state-supported centers and the only one based at a university. In addition to receiving funding from the State of Ohio, the OEOC receives funding from the federal government, private foundations, donations and fees for services rendered.

OEOC Mission

The mission of the OEOC is to broaden ownership among working Ohioans and to deepen that ownership through employee participation, communication and training in the employee-owned sector. Our overall aim is to anchor capital and jobs locally through participatory employee ownership. That builds productive assets for working families and increases community prosperity. Layoff aversion and economic development are at the heart of the OEOC's mission.

OEOC Programs

The OEOC coordinates programs in Ohio in the following areas:

- ■ Outreach
- ■ Business Owner Succession Planning
- ■ Technical Assistance in situations where employee ownership is considered:
  - ♦ Plant shutdowns and distressed companies
  - ♦ Retiring owners
  - ♦ Employee buyouts
  - ♦ Owners desiring cash for a portion of the company
- ■ State of Ohio's Prefeasibility Study Grant Program to avert threatened job loss
- ■ Referral of qualified service providers from professional member database
- ■ Administration of non-profit Common Wealth Revolving Loan fund specializing in loans to employee-owned companies or cooperatives
  - ♦ Employee buyout transactions
  - ♦ Employee-owned start-up ESOP companies or cooperatives
  - ♦ Equipment and working capital loans to existing employee-owned companies
- ■ Network of Employee-Owned Companies in Ohio that provides educational and networking opportunities for the member companies
  - ♦ 12-20 programs annually on topics ranging from ESOP technical administration issues to communication strategies geared toward audiences ranging from board members to upper management to middle managers to hourly workers
  - ♦ Annual Conference attended by 400 employee owners and other interested parties
- ■ Customized training at employee-owned companies
- ■ Research on employee ownership

We have designed this as a coherent strategy to promote employee ownership in one state. Outreach creates a demand for technical assistance and builds political support. Succession planning is not only a very cost effective economic development tool ("save jobs that are already here") but also helps create demand for employee ownership technical assistance as selling to employees is one option of succession planning. Technical assistance develops new employee-owned companies and builds political support. Rural cooperatives frequently develop through the succession planning process and also give rise to some worker-owned cooperatives. Employee-ownership training, organization development and Network programs all facilitate the establishment of an ownership culture at companies, thereby helping those companies realize improved corporate performance that results from the combination of actual employee ownership and an ownership culture. Our best-practice Network not only provides training but also serves as a learning community for companies committed to employee ownership. CWRLF is serving as a source of capital for some new and existing employee-owned companies with the prospect of future growth likely. One of our projects, The Evergreen Model, in which we are collaborating with the Cleveland Foundation and the Democracy Collaborative, is demonstrating how a program can incorporate employee ownership and be viable in a single impoverished city district with 43,000 inhabitants and be replicable in other cities in the state. Indeed, the Evergreen Model has received national acclaim as a new approach to help revitalize and solve some of the economic problems associated with America's inner cities by employing low income residents of those inner city neighborhoods in employee-owned businesses that provide services for the anchor institutions of the city. Our applied research and publications reinforce our outreach and technical assistance, offering roadmaps of "how to do" participatory employee ownership (especially in unionized settings) and for setting up employee cooperatives in small businesses.

Impact of OEOC on Jobs

Since the inception of the OEOC in 1987 and June 30, 2010, OEOC staff worked with 644 companies employing 136,958 to explore whether employee ownership made sense in their cases. We assisted employees in buying part or all of 89 companies, creating 14,658 new employee owners and retaining or stabilizing their jobs.

Of the 89 employee-owned companies, 63 are still employee-owned. 18 were sold as financial successes, 5 were sold in distress and 3 were shut. Considering that 15 of the 89 were initially threatened with shutdown (in other words, some fairly bright and insightful business people analyzed the 15 companies' futures and decided that the best solution was to shut all 15 of them down), the fact that only 3 of the ESOP companies were shut down out of the total that we've helped is quite impressive.

If every cent in our budget over our 23-year history were allocated to job retention, the cost per job retained or stabilized would be about $719/job (the cost in state support would be about $336/job impacted). These costs are very low in relation to the usual costs of job retention.

Impact of OEOC on Wealth Creation

Employee ownership results in significant wealth creation for Ohio workers. Through 2004/5, the most recent year for which we have complete data, 64 of the 89 firms reported to the IRS that they had created about $344 million in net equity for their employee owners, while paying out more than $6.4 million to retirees that year.

We have analyzed the OEOC's wealth creation impact in studies in 2004, 2006 & 2008, and we have preliminary results from our 2010 study. The results from all four studies are included in the chart below:

	Date of OEOC Study			
Item	2004	2006	2008	2010 Prelim
Total number of companies with which OEOC has worked that became employee-owned	69	79	85	89
Number of companies for which we have wealth data	44	49	64	52
Number of employees at those companies for which we have wealth data	4,831	9,800	11,640	5,549
Fiscal year of company wealth reports	2001	2003	2004/05	2007
Total Assets created	$300 million	$349 million	$421 million	$253 million
Net Assets	$121 million	$267 million	$344 million	$224 million
Net Assets per Employee	$25,000	$27,000	$30,000	$40,000
Payouts to ESOP Participants during the fiscal year of their ESOP benefit		$8.4 million	$6.4 million	$72.0 million
Payouts to ESOP Participants not including the largest company, which was making ESOP termination distributions (the company was sold)				$16.0 million

Total Assets includes debt taken on to purchase shares from retiring owners. The net asset number excludes the remaining acquisition debt. In the case of new ESOPs which are 100% leveraged initially, not only does the acquisition debt affect the net value of employee equity, but also the heavy leverage against the business reduces the business' value as well.

Clearly, employee ownership is a significant tool for wealth creation for working people. Without employee ownership, these amounts would all be zero for the employees at these companies.

The Net Assets per Employee figure shows a healthy increase across the years. Why? Three primary reasons: (1) the general tendency of the stock price per share for the ESOP companies to increase over the years; (2) the general tendency over the years for ESOP participants to be allocated additional shares of company stock into their ESOP accounts; and (3) the general tendency for the ESOP trust to purchase additional shares of company stock over time from selling owners; i.e., a 30% ESOP-owned company becomes a 40% ESOP-owned company becomes a 60% ESOP-owned company, etc.

ESOPs are a "get rich slow" scheme, and the data appear to be confirming that notion. ESOPs are not consistent with the "get rich quick" schemes that seem to be so prevalent today, and these schemes likely will not result in any lasting wealth creation for individuals, companies or the nation. ESOPs facilitate the creation of healthy, lasting wealth.

Please note that the 2010 figures are preliminary, and the number of companies for which we could obtain data is significantly lower than the 2008 study. Hopefully, as we dig further into the data, we'll identify additional companies for which data is available.

Added Value of OEOC

As evidenced above, the OEOC has produced dramatic results through the years. Yet, the impact is even greater when we drill down into the numbers. General ESOP research has established that an ESOP by itself does not result in improved corporate performance; however, an ESOP combined with an ownership culture results in significantly improved corporate performance in just about every measure of corporate performance. We have some preliminary evidence that companies that are members of Ohio's Network of Employee-Owned companies take heed from our training programs and have more democratic employee ownership with more employee participation and influence from the shop floor to the boardroom, and, correspondingly, perform better than non-member Ohio ESOP companies.

OEOC's Common Wealth Revolving Loan Fund

The OEOC has managed the Common Wealth Revolving Loan Fund (CWRLF) since 2004. CWRLF is a separate non-profit, 501(c)(3), entity. CWRLF has a contract with OEOC to manage the loan fund. Just this week, CWRLF was awarded $600,000 in funding from CDFI (Community Development Finance Institution) funds which will bring CWRLF's total assets to just over $2 million. CWRLF makes loans to employee-owned companies to satisfy a variety of financing needs – ESOP or employee-owned cooperative buyout, partial sale by retiring owner, plant or equipment expansion, working capital, etc. Unfortunately, with its ability to make a loan to an individual borrower limited to a maximum of $250,000, CWRLF is unable to contribute in a significant way to many ESOP transactions. Our objective is for CWRLF to become much larger; however, currently, it is limited as to what it can accomplish.

Because ESOPs and worker-owned cooperatives have somewhat different accounting rules than what bankers and other lenders typically see, many bankers and other lenders are uncomfortable in making loans to those companies. This often makes financing for ESOP and coop transactions more difficult to obtain than financing for transactions involving conventional companies. The idea of a U.S. Employee Ownership Bank would greatly alleviate much of that difficulty and would, in fact, provide an incentive for financial institutions to lend to employee-owned companies.

Replication of OEOC

The OEOC has served as the model for the Vermont Employee Ownership Center and is currently assisting the State of New York in re-establishing its center modeled after the

OEOC. An employee ownership center has recently been established in Australia, again utilizing the OEOC as a model and OEOC staff as mentors for the Australian staff. Most recently, this month, representatives from Kentucky visited the OEOC for a day long series of meetings with OEOC staff with the intention of replicating the OEOC model in Kentucky.

Risk for State Employee Ownership Centers under Current Structure

Employee ownership is a concept that is essentially non-partisan. Elected officials of all political persuasions have supported it. But, unfortunately, although the OEOC has survived quite nicely since 1987, other State centers have not done so. To the best of our knowledge, 28 states passed legislation encouraging the creation of employee-owned; however, Ohio is one of only 8 states that created a state-supported program to achieve this end. Regrettably, as mentioned previously, only 3 state-sponsored centers exist now. In many cases, change of State administration meant the end of the employee ownership center.

Historically, the OEOC was funded by the Ohio legislature; however, due to the State's budget crunch, the legislature did not fund the OEOC for FY10. The OEOC programs are now funded at Governor Ted Strickland's discretion through the use of Workforce Investment Act funds administered by the Ohio Department of Development. While we are very pleased with our current funding from the State of Ohio, we recognize that when there is a new governor (and there will be a new governor at some point in the future), there is a risk that the new governor will deem the OEOC to be a program of the previous governor and not support it. We are striving to avoid this fate, but we recognize that it is a possibility.

Federal legislation providing ongoing funding for State employee ownership centers would do much to eliminate this risk and would allow us, and other centers like us, to concentrate on our core mission of saving jobs and broadening employee ownership.

Support for WORK Act and U.S. Employee Ownership Bank Act

The Ohio Employee Ownership Center at Kent State University supports the proposed WORK Act and U.S. Employee Ownership Bank Act. Their passages would facilitate the establishment and success of more employee-owned companies.

As stated above, the OEOC has had considerable positive impact on jobs and wealth creation in Ohio. Other State employee ownership centers should yield similar results in their states. The WORK Act should be passed.

Obtaining financing for ESOP and worker-owned cooperatives is a continual struggle. The U.S. Employee Ownership Bank Act will facilitate that financing and will result in the creation of more ESOPs and worker-owned cooperatives and prevent jobs from being needlessly lost due to lack of available financing. It should also be passed.

As supported by several research studies, ESOP companies perform better than comparable non-ESOP companies. ESOPs and worker-owned cooperatives are simply a better way of doing business. Creating more of them will help not only the individual employees but the companies themselves, their communities, their states, and the nation as a whole.

ADDITIONAL SUPPORTING MATERIAL RE WORK ACT:

The “Worker Ownership Readiness and Knowledge Act” (WORK Act) seeks to spread ownership of productive assets among American workers and to deepen that ownership through employee participation. Both employee ownership and employee participation play major roles in increasing employee wages, benefits, job security, and assets for working Americans.

1. Employee ownership creates assets for workers who otherwise would have less of them, and these assets aren’t offset by reductions in other pension plan contributions by employers.

Data: Only 19% of Ohio ESOPs in the 2004-06 study were conversions from another pension plan; most of those were profit-sharing plan conversions. So in four-fifths of Ohio ESOP companies, the ESOP represents an **additional** pension plan. Moreover, 89% of Ohio ESOP companies maintain at least one non-ESOP pension plan for employees.

2. Part of the reason for this is employee-owned firms which provide avenues for employee owners to participate in business decision making, which share information about business performance with employee owners, and which do training for their employee owners on using the participation system and understanding financial and other business information, systematically outperform employee-owned companies which don’t do that and conventionally owned companies. So, there’s a performance bonus for participatory employee-owned companies

Data: At least a score of studies beginning with the General Accounting Office’s 1987 study have found gains in a variety of indicators of corporate performance in closely held, participatory ESOP companies. The gains are greatest in terms of indicators under the direct control of employee owners, such as productivity and quality. The 2000 Rutgers University study by Joseph Blasi and Douglas Kruse found improve in annual sales growth to be +2.4%, annual employment growth to be 2.3% and annual growth in sales per employee to be +2.3% in ESOP companies over their previous performance prior to instituting the ESOP. Our 1992-93 Ohio ESOP study which looked specifically at the relation between avenues for participation and performance found no magic bullet but consistent evidence of an additive effect: the more avenues for participation there were, the greater the impact on performance. Open book management and employee training play contributory roles but have little impact in the absence of employee participation.

3. Majority employee-owned companies are more likely to have this complex of high performance characteristics (especially participation) than minority ESOPs.

Data: The 1992-93 and 2004-06 Ohio studies demonstrate that majority employee-owned companies are more likely to evidence these high performance traits than minority employee-owned companies.

4. Employees benefit: they receive somewhat higher wages, much higher benefits, and significant wealth accumulation **not** bought at the cost of reduction of other pension plans, and they are less likely to be laid off.

Data: The primary comparative study of wages and benefits in matched ESOP and non-ESOP firms was the 1998 Washington State study by Peter Kardas, Jim Keogh, and Adria Scharf. This study, Wealth and Income Consequences of Employee Ownership, found median hourly wages in ESOP firms to be 5% to 12% higher than the median hourly wage in the comparison companies, and that the value of retirement plans to be 150% higher in ESOP companies ($32,213) than matched non-ESOP companies ($12,735). The average annual ESOP companies' retirement contribution per employee per year was about 10% of pay while non-ESOP companies average about 3.0%. The 2004-06 Ohio study had similar findings: 28% of ESOP companies paid higher wages versus 8% which paid lower wages, and 47% had higher benefits and 2% had lower benefits than their conventionally owned competitors.

5. Employee-owned companies provide significant community economic benefits. Relative to their conventionally owned competition, they are less likely to lay off in downturns, less likely to outsource/off shore work, and relatively more likely to reinvest locally.

Data: The 2004-06 Ohio Study found that 35% of Ohio ESOP companies outperformed their industry in terms of employment while 9% underperformed their industries, 47% outsourced/offshored less work than their conventionally owned competitors and none outsourced/offshored more, and 31% reinvested more while 17% reinvested less than their conventionally owned competitors.

6. Most of the publicity for employee ownership in the media concerns troubled companies. These make up, however, only 2-5% of employee-owned companies. While there have been some well publicized failures in this group, many have done well. These buyouts save jobs which otherwise would have been lost.

The reason in part is doing rigorous feasibility studies to determine whether – and how – the firm or plant can succeed under a change to employee ownership, whether the employees need outside partners, how much debt the employee-owned firm can service, etc. This bill encourages those feasibility studies.

7. Despite the publicity about troubled companies, about 70% of ESOPs are set up as part of ownership succession planning in closely held businesses. Many business owners nearing retirement without heirs, however, know nothing about employee ownership as a business succession strategy. Encouraging the use of employee ownership – ESOPs in larger businesses, co-ops in smaller firms – in business ownership succession, a major function of this bill, will increase job retention in small and medium-sized closely held companies.

Data: *The Real World of Employee Ownership*, p. 26; 2004-06 Ohio ESOP survey, question 9.

8. There is an inverse relationship between tax expenditures for employee ownership and improved company performance. Higher tax-expenditure ESOP companies (largely publicly traded) tend to have lower performance impacts. They do, however, create significant wealth for their employees.

Data: The least participatory employee-owned firms – which include almost all of the public companies – in the 1992-93 Ohio study constituted 43% of the firms but received about 90% of the tax expenditures for employee ownership. The top 57% received about 10% of the tax expenditures (cf., *The Real World of Employee Ownership*, pp. 169-72)

9. High impact of peer networks on improving the performance of companies via the laggards acquiring high performance characteristics. The "Worker Ownership Readiness and Knowledge Act" encourages formation of peer networks within individual states.

Data: Members of Ohio's Employee-Owned Network, a peer network of employee-owned firms which approximates a learning community, outperform non-members by a factor of roughly 2 in terms of participation, communication, training and employee interest in decision making in the 1992-93 Ohio Study. They were 7 times as likely to have non-managerial employees elected to their boards of directors and 1½ times more likely to have improved their profitability relative to their industries (cf., *The Real World of Employee Ownership*, pp. 167-69).

10. State programs have a high impact in increasing rates of ESOP creation in small companies & spreading best practices. But they are rare. Only Massachusetts, Ohio and Vermont currently have state employee ownership programs, though New York is actively working to revive its program. The "Worker Ownership Readiness and Knowledge Act" speaks directly to this need to increase formation of employee ownership in smaller, closely held companies.

Data: National Center for Employee Ownership studies of the New York, Ohio, and Washington state programs in the early 1990s found that these programs increased the rate of ESOP formation in closely held firms but had no impact in the publicly traded sector.

Data: The OEOC statistics are cited in the body of our statement above.

These numbers compare favorably with other strategies for creating wealth for working people because the state program serves as a catalyst to put productive assets which can multiply themselves into the hands of Ohio working families.

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Sources of data: National data are taken from the National Center for Employee Ownership's summary of studies, "Employee Ownership and Corporate Performance," located at http://www.nceo.org/library/corpperf.html . The 1992-93 Ohio study results were published as John Logue and Jacquelyn Yates, *The Real World of Employee Ownership* (Ithaca: Cornell University Press, 2001). The 2004-06 Ohio study results are currently unpublished.

ADDITIONAL SUPPORTING MATERIAL RE THE U.S. EMPLOYEE OWNERSHIP BANK ACT

Employee ownership is a proven tool for job retention and job creation and for economic development in Ohio communities. The Ohio ESOP study cited in *The Real World of Employee Ownership* (Cornell University Press, 2001) found that 49% of employee-owned companies outperformed their industries in job creation and retention, 50% matched their industries, and only 1% under-performed their industries. Employee-owned businesses clearly contribute to healthy local economies.

Employee ownership benefits individual Ohio firms and their communities in many ways. For individual firms, it can create a market for a departing owner's stock, provide significant federal tax breaks, reduce debt service burdens, complement a commitment to participative management, and improve corporate performance. For the local community, employee ownership can be an economic development strategy used to retain businesses that might otherwise be liquidated at the retirement of an owner without a successor, anchor the ownership of businesses in the community, secure jobs that might otherwise be moved out of state, provide additional capital for reinvestment and expansion and increase the competitiveness of Ohio businesses.

The Cost

Cost per job retained, created or stabilized through the Ohio Employee Ownership Assistance Program cumulatively through June 30, 2010, in the firms that implemented ESOPs was $336 per job in Ohio Department of Development funds, a small number compared to the costs, financial, physical and psychological, associated with unemployment. The program is highly cost effective because it helps people help themselves.

As an economic development strategy, employee ownership yields long-term benefits in four additional areas:

1) Employee-owned firms reinvest in capital improvements in existing facilities at a higher rate than other firms. While this is motivated primarily by the employee-owners' interest in job security, it helps to increase the competitiveness of Ohio firms and to anchor capital and jobs in our communities;

2) Employee-owned firms also reinvest in their human capital at a higher level than is common in our region. The consequence is a movement up the scale toward high performance work systems with higher productivity and profitability.

3) There is growing evidence that employee-owned firms have a higher economic multiplier effect in their communities, in part because of a preference for local suppliers and in part because anchoring the ownership of productive wealth in a community among employees generally supports higher levels of home ownership, purchases of consumer durables and higher retirement benefits;

4) As cited in the chart in the body of this statement, employee-owned firms create significant assets for Ohio families. That wealth creation effect also anchors capital locally and helps solidify our communities' economic base.

In short, employee ownership has proven to be an effective means to retain and increase jobs in Ohio. Today, some 350 partially or wholly employee-owned companies headquartered in Ohio employ more than 300,000 people.

Obstacles

Nevertheless, for many years, the Ohio Employee Ownership Center has had to struggle with issues of how to obtain adequate loans and equity for employee-owned companies. In theory, capital looks so easy to obtain; in practice, however, employee-owned companies and small and medium-sized companies in general, have trouble getting financing. The median size of the companies we work with is about 100 employees doing about $10 million in sales. Of the 75 companies that are part of Ohio's Employee-Owned Network, only 4 have more than 500 employees. In short, we work largely with classic small and mid-market companies. And they are often strapped to get capital for growth.

Every year, in our technical assistance at the OEOC, we have lost at least one otherwise viable employee buyout because of the lack of timely, friendly capital. To put it bluntly, almost every year for the last fifteen, we have seen at least one viable employee buyout effort fail with the loss of 100-200 jobs because no one could round up financing in a timely fashion.

Following are four potentially viable buyouts in Ohio that could have benefited from a friendly lender:

CSC Steel, Warren, 1,350 employees. The closing of CSC was announced in the third quarter of fiscal 2001. The ODJFS Rapid Response program funded a two-stage prefeasibility study. Stage one determined that the facility was viable and that the shutdown occasioned by lack of debtor in possession working capital had dramatically diminished the value of the plant while making a re-start extremely difficult for employees because of the working capital needs. This stage one study found employee ownership could work with an outside equity partner. Stage two determined whether a partner for the employees could be located and apparently found one in Renaissance Partners, a Pittsburgh-based investment fund. Throughout the first quarter of FY02 Renaissance Partners continued their due diligence for a purchase and the employee buyout group was optimistic about a successful sale and re-opening of the facilities. Immediately following the end of the quarter, however, Renaissance Partners announced that it had ended its interest in pursuing the purchase of CSC; there were, Renaissance Partners told the press, better opportunities available for turnarounds in the aftermath of September 11th.

HPM, Mt. Gilead, 500 employees. In FY01 a two-phase study was commissioned. Phase one reached positive conclusions about the viability of a restructured HPM provided a partner could be found for the employees. The second phase of the study then offered three potentially viable options for restructuring the company. During the first quarter of FY02, however, HPM failed to keep control of the company. The consequence was that the lender, Fleet/First Boston, seized HPM’s assets, threw the company into bankruptcy and closed down the plant. Fleet proceeded to sell the assets of the company to a buyer of dubious ability to perform in terms of keeping the plant open, or, perhaps, even completing the deal. This was in preference to selling to the partner whom the employees had found who pledged to run the company and to sell to the employees as an exit strategy.

Massillon Stainless Inc. Massillon, 92 employees. Massillon Stainless, Inc. was a stainless cold rolling operation. Major markets for stainless steel strips include household appliances, food processing and restaurant equipment, elevators, architectural trims, pipes and tubing and transportation equipment. At the request of the Steelworkers Local Union and members of salaried management, a prefeasibility study was commissioned. The buyout group selected Locker Associates to perform the study. While the study was being conducted, the company announced plans to close the facility.

The study was completed October 24, 2002 and concluded that the facility could restart and operate profitably if it could find an outside equity investment partner and assure itself of a supply of raw materials. The study also noted that a minority ESOP would make sense given the employees' strong commitment to the company and its excellent labor-management relations. A supply of raw materials was found, however, ultimately, an equity partner was not found, and the plant was closed. The machinery was sold to interests in India.

Cold Metal Products, Youngstown, 116 employees. Cold Metal Products was a manufacturer of strip steel products for precision parts manufacturers. The company announced closure of the plant on August 15, 2002 and then filed for bankruptcy the next day. Subsequently, the Cold Metal Employee Buyout Group filed an application for a prefeasibility study grant that the OEOC approved.

The Buyout Group selected Kokkinis & Associates to do the study. The study got underway late in September and was completed in early December 2002. The study found potential for a successful restart of the facility, however, because of the capital requirements of such a restart, it recommended the employees work to get an outside equity investor involved that would entertain a minority employee ownership position for the workers. The plant stayed closed, and the equipment and material was auctioned off in January 2007.

The Proposed Legislation

The impetus behind this draft legislation is the fact that the United States has lost a couple million good-paying manufacturing jobs over just the last few years. The loss of manufacturing jobs has been going on for some period of time, although the pace of job loss has picked up in the more recent past as we have battled with economic recession, the crisis in the steel industry and the adverse effects of massive international trade deficits.

The U.S. Employee Ownership Bank Act is, in essence, aimed at job retention and job creation and proposes to retain more manufacturing in America by helping American workers buy their plants, educating them in employee participation strategies so they can be more competitive while anchoring capital locally in the process.

The Act proposes to establish a "Bank" within the U.S. Treasury Department that will provide grants to the States to provide technical assistance, participation training, education and outreach along with loan guarantees and/or subordinated loans to help employees purchase the business provided a prefeasibility study shows that employee ownership is a viable alternative. The existence of such a "Bank" would, in our opinion, have made a positive difference in the outcome of the four buyout efforts cited above.

The Act also includes a provision that would require an employer closing a plant to provide 90 days advance notice before such plant closing and to offer the employees the opportunity to purchase the business. This provision would have been of particular utility in the case of Brainard Rivet in Girard, OH. Brainard Rivet is now employee owned and part of Fastener Industries, a 100 percent employee owned company in Ohio. However, it was a major struggle to get to that point. Brainard was part of Textron when the parent shut down this profitable specialty fastener operation so that it could move the production to a non-union plant in Virginia. The move didn't work out because the employees in the Virginia plant did not have the skill level needed to be competitive. The turning point in Brainard's road to employee ownership came when it was discovered that Textron was sending much of the Brainard business to competitors rather than running it at its Virginia plant. This revelation resulted in political pressure from the Ohio Congressional delegation as well as from state and municipal representatives. Since Textron was the recipient of a number of government contracts, it became more cooperative in the employee's efforts to buy the facility.

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