

# Owning Maine's Future



## Opportunities and Policies for Growing a Cooperative Economy in Maine



***The aging of Maine's population is an issue with many implications, from health care to the ways our communities function. One facet of this issue lacking the attention it deserves is what will become of Maine's small businesses – now, as in the past, the bedrock of the state's economy. The 32,000 small businesses that have employees represent half of Maine's entire workforce, and those jobs are threatened by an accelerating rate of business liquidation and closure.***

**Over half of small business owners nationally are over the age of 55, and according to a recent national survey by the Business Enterprise Institute, 79% of those owners want to retire within 10 years, and nearly 60% would like to retire in less than five years. Yet fewer than 20% of owners have a written succession plan to make that happen.**

In Maine, which has the oldest population in the US, this challenge is more acute; more business owners are looking to retire even sooner, yet a recent survey by the Cooperative Development Institute showed that less than 15 percent of these owners have a plan for exiting their business, and a majority of them were only somewhat confident in that plan.

Many business owners hope their children will take over, but have failed to plan appropriately or aren't clear whether their children even want the business. As a result, only 15% of businesses are successfully passed on to the next generation. When owners do try to sell, only 20% of commercial listings lead to a successful transition to a new owner. All too often, liquidation, closure, and the loss of jobs is the fate of even seemingly thriving businesses. And the smaller and more rural the business, the more likely it is to be closed rather than sold, rippling through local economies and exacerbating community decline.

***There is an alternative: transitions to employee ownership.*** Here, the success rate is far higher. Surveys show that 80% of well-planned employee buyouts succeed. And everyone wins: Employees become owners, increasing their loyalty, job satisfaction and household wealth; owners have an exit strategy that rewards their enterprise and hard work, often including an ongoing income stream; and communities benefit from the stability and longevity of these legacy businesses.

Maine has already seen a modest increase in employee ownership of small businesses. As the waves of business owner retirements continue to crash on our shores, it's important that this successful ownership model become better known, and easier for both owners and employees to use. Many states have already created incentives and models for employee ownership, and Maine is now poised to follow suit.

**This report outlines specific steps the Legislature needs to take to realize the promise of cooperative and employee-owned enterprises, but first it is important to understand where they came from, what they are – and how they work.**



# Cooperatives Worldwide

Cooperatives are part of a worldwide movement that has created a successful, broad-based ownership model that strengthens local control and enhances community economic stability. Countries as varied as Finland, Italy, and the United States have used cooperatives on a large scale to create long-term prosperity and community cohesion.

Finland is now among the world's most equitable, educated and prosperous societies, in large part because it has managed to balance lucrative, highly competitive but sometimes unstable export manufacturing with the need for resilient local communities. Among all nations, Finland has the highest proportion of cooperatives, with 17% of the workforce employed by cooperatives and 84% of Finns joining at least one cooperative as members.

Cooperatives also helped turn around Emilia Romagna, a region in Northern Italy that was historically very poor and was utterly devastated in the aftermath of World War II. Today, it is prosperous, with the help of 8,000 cooperatives, including the largest concentration of employee-owned businesses in the world, that produce 13% of the region's GDP. Household wealth is 30% higher than the national average, and the region creates patents at nearly three times the national rate.

In the United States, cooperative innovation and growth provided an effective response to the unprecedented challenges of the Great Depression. For example, much of rural America gained access to electricity for the first time through rural electric cooperatives. Such cooperatives still serve three quarters of the nation's geographical area, and 13% of our population, including the Eastern Maine Electric Cooperative which serves most of Downeast Maine. As another example, cooperative ownership increased food security, with large-scale regional cooperatives sustaining many communities through consumer, producer and worker ownership of farming, food production, distribution and grocery retailing.

Employee ownership received a major boost in 1984 when President Ronald Reagan and House Speaker Tip O'Neill joined forces to enact legislation creating substantial tax and regulatory benefits both for worker cooperatives and Employee Stock Ownership Plans, or ESOPs. The resulting growth spurt in employee ownership has produced more than 7,000 employee-owned firms with 13.5 million employee-owners and \$1.4 trillion in assets, and in 2016 distributed \$112 billion in profits to those employee-owners.

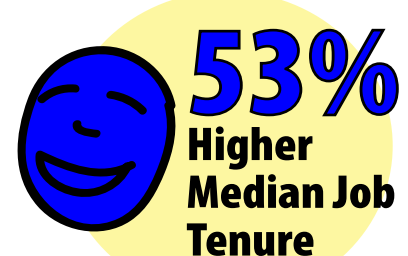
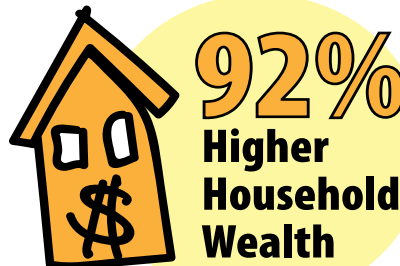
Employee ownership works. Compared with similar conventionally-owned firms, they create 2.5% more jobs, are one-third less likely to lay off workers in an economic downturn, and – dramatically – they produce 2 ½ times the retirement savings for workers. Following their recognition and inclusion in the federal tax code, employee-owned firms have grown rapidly.

Maine has long had many types of cooperatives, especially in agriculture and fisheries. The Stonington Lobster Co-op has been around since 1948. In seven decades since then, it has grown to 80 working members and 120 shareholders and provides a model for the rest of the working waterfront. Today, the 650 members of 22 lobster co-ops land over 30 million pounds a year, nearly 30 percent of the state's catch in its leading ocean industry. What's more, those co-op members are keeping more of the wealth they create in the local community rather than letting it go to industry middlemen, because they earn more per pound than non-co-op members.

Maine's credit unions are another example of a long-established cooperative model that grew rapidly amid crisis and changing regulations in the 1990s that produced a sharp decline in traditional community banks. Credit unions stepped up to fill the gap, and are now leading providers of home mortgages, auto and small business loans. Now, 60 member-owned credit unions in Maine have 692,000 members, \$8 billion in assets and \$7 billion in deposits, and have provided a safe, secure way for Mainers to access financial services, build equity and reinvest in their own communities.

## Employee ownership can help stem Maine's "brain drain" and attract and retain more young workers

A recently completed study followed 9,000 young people from when they entered the workforce in 1997 at age 18, to 2013, when they were about 34 years old. Young workers in employee owned companies were in a much better financial situation.



# New Needs, New Tools

## Cooperatives have continued to evolve in response to new community needs.

Agriculture has attracted significant interest among young entrepreneurs, many of whom are establishing businesses in small, rural communities where jobs are scarce. Yet farming is possible almost anywhere in Maine, and several immigrants from Somalia are re-creating their livelihood from the African landscape in **New Roots Cooperative Farm** in Lewiston, a producer cooperative that has grown rapidly since its start in 2017 on 30 acres in Maine's second largest city.

Farming and food has long been a fruitful source of cooperative ventures. Since its founding in 1976, the **Belfast Co-op**, the state's oldest and largest food co-op, has become a downtown destination, a grocery store and deli/café that has helped anchor the local community as other businesses come and go. By supporting local agriculture and healthy eating, the Belfast Co-op has become an important link between food producers and consumers. Just up the coast, the Blue Hill Co-op has undertaken a \$6.1 million capital plan to quadruple its retail space this year. Maine now has nine food co-ops employing 234 workers, with assets of \$7 million, \$26 million in annual sales, and more than 16,000 members.

Maintaining and creating secure, affordable housing is a challenge for many communities. For example, Maine has over 600 manufactured housing parks that are home to over 20,000 Mainers. Most of these households own their homes but rent their lots, and are tenants-at-will. They have no recourse should the owner decide to sell the land for development, despite having made significant investments in their homes. These homes are not mobile at all and it would cost more than most homeowners could afford to move their home and be even more challenging to find land or another lot to place it.

The **Wardtown Mobile Home Cooperative** in Freeport was formed in 2015 to avert such an outcome, and 60 families, some of whom had lived there for a generation, now have the long-term security that home ownership provides. In New Hampshire, where Resident-Owned Communities (ROCs) have a longer track record, nearly one-third of the state's affordable housing stock in manufactured home communities has now been permanently protected through cooperative ownership.

Faster growing urban areas and downtown settings are also ripe for cooperative housing ownership. Responding to the shortage of rental housing, the **Raise-Op Housing Cooperative** in Lewiston is purchasing apartment buildings and turning them into resident-owned co-ops that serve the needs of long-time community members and new Mainers alike, as well as offering ground-floor commercial space that helps integrate housing with other community assets. Rents at Raise-Op are significantly lower than the regional market rate.



New Roots Cooperative Farm



Raise Op Housing Co-op



Belfast Co-op



Rock City Employee Cooperative



Insource Renewables



Island Employee Cooperative

## 'Silver Tsunami'

In recent years, the impending wave of baby boomer retirements among small business owners – dubbed the 'silver tsunami' – has increased interest in preserving small businesses by converting them to employee ownership. Conversions can take the form of ESOPs, where employees own the company through a benefit trust, or worker-owned cooperatives, where they directly own and govern the business.

**Rock City Employee Cooperative** in downtown Rockland, a café and coffee roasting business, is an example of a successful transition, where the owner and long-time employees had the same goals, but had not worked out a detailed succession plan. Rock City was able to come up with a long-term agreement that enables the retiring owner to achieve a continuing income stream, while allowing young workers who helped make the business a success to become owners.

On remote Deer Isle, employees of three retail businesses – Burnt Cove Market, the Galley Market and V&S Variety (itself an Ace Hardware, which is a purchasing and marketing cooperative owned by independent business owners)–knew that the owners wanted to sell the businesses and retire. Potential buyers from outside the community might not have maintained the same levels of jobs and service, and employment opportunities on the island are limited. So, the employees banded together and, with a group of advisors, created the **Island Employee Cooperative (IEC)** to buy the stores. It's now one of the island's largest year-round employers, the largest worker cooperative in Maine, and second largest in all of New England.

Replicating and expanding employee ownership to meet the 'silver tsunami' will take a concerted effort not only by business owners and employees. It requires public policy changes that establish this innovative model as a goal of state government, accompanied by educational efforts to make the opportunities and benefits more widely known.



## OWNERSHIP TRANSITION INITIATIVE

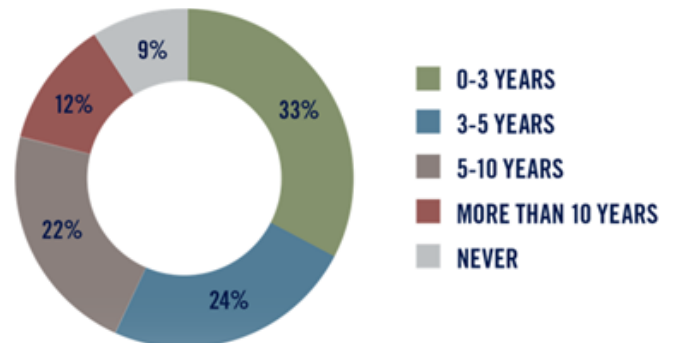
Ensuring your business legacy. Ensuring our economic future.

Washington County is the oldest and poorest county in Maine, and has an estimated 484 small businesses employing 3,785 workers – half of the County's private sector workforce – where the business owner wants to retire.

Now, with funding from the John T. Gorman Foundation, a partnership of economic, community and workforce development stakeholders is providing exit planning education and technical assistance services to help those business owners plan their retirement in a way that preserves those businesses and jobs.



## How long before owners want to exit their businesses?



Source: Business Enterprise Institute, Business Owner Survey

# How Cooperatives Work

**The beauty of cooperative enterprises for a small state like Maine lies in their variety, flexibility and local control; they are definitely not one-size-fits-all. They can be used for start-ups, or for transforming a conventionally owned business.**

**There are three general types:**

**Consumer Cooperatives** are owned by their customers, and are formed to obtain access to goods or services currently unavailable to them, or for which they're seeking a better price. Examples include the Belfast Co-op and Wardtown Mobile Home Cooperative described earlier, and the Eastern Maine Electric Cooperative, which serves 13,000 customers in Aroostook, Penobscot and Washington counties.

**Employee-owned Businesses** align the interests of workers, management and owners to the benefit of all. As owners of the business, the employees have a say in working conditions, pay and relocations, while sharing in the profits. For owners transitioning their businesses, there is continued income, as well as the assurance that their hard work will be rewarded in a company that can achieve the longevity that often eludes small businesses. Examples include Rock City Employee Cooperative and the Island Employee Cooperative described above; ESOPs such as Sebago Technics, an engineering and architecture firm headquartered in South Portland, and Moody's Co-Worker Owned, a collision repair business with nine locations throughout southern Maine; Crown O'Maine Organic Cooperative, a food wholesaler in Vassalboro; Isuken Co-op, a Somali food truck in Lewiston; Maine's newest worker cooperative, Insource Renewables, a renewable energy company located in Pittsfield; and numerous construction firms located throughout the state.

**Business Cooperatives** are formed by independent businesses to gain market advantages in both buying and selling. There are three varieties: **Producer cooperatives** are common in agriculture, and include such well-known brands as Land O'Lakes, Welch's and, in New England, Cabot Creamery. **Purchasing and marketing cooperatives** are present in Maine through such businesses as Associated Grocers of New England, Ace Hardware, True Value and Best Western. An example of **Shared services co-ops**, arrangements to pool back office, human resources, legal, marketing and communications functions, is the Independent Retailers Shared Services Cooperative, which works with dozen of retail establishments throughout New England.

# 2019 Maine Legislation

## **LD 1520: An Act To Create and Sustain Jobs through Development of Cooperatives and Employee-owned Businesses**

LD 1520 would incentivize the sale of business assets to cooperative or employee-owned enterprises, and reduce the cost of financing the sale. This legislation would help create many more cooperatives and ESOPs in Maine by supporting the conversion of businesses, farms, manufactured home parks and apartment buildings.

**LD 1520 would also establish a Maine Employee Ownership Center.** A Center would expand the education, training and technical assistance resources available to workers and retiring business owners to transition existing businesses to employee ownership.

## **LD 1305: An Act To Encourage Savings through Contributions to Family Development Accounts**

FDA's are special savings accounts for low-income people to save money for specific purposes, like buying a home, pursuing education, buying a car or starting a small business. Historically, FDA savings were matched so there was a strong incentive to save, but this benefit was recently eliminated by the federal government.

LD 1305 would create a tax credit to encourage private citizens to contribute to FDA programs so matching funds are available to support low-income workers' savings. These funds would be particularly helpful to members in resident owned cooperatives saving to buy a new manufactured home, members of farming co-ops saving to buy a new piece of equipment or pooling their savings to buy land, or workers saving to buy a share in a worker co-op.

# The Future

Cooperative and employee-owned enterprises will continue to grow and thrive in Maine because they offer such an attractive option for existing business owners to exit and retire, and for young entrepreneurs who want to start new businesses. They can only achieve their full potential to address Maine's pressing needs, though, with the help of active public policy initiatives based on clear goals.

The Legislature now has the opportunity to provide the same types of support that over a dozen states have already provided. Essential elements include tax incentives for transitioning existing businesses, farms and housing to employee or consumer ownership, in recognition of the many benefits they provide for communities, workers and local economies, something especially important in often hard-pressed rural regions. An Employee Ownership Center will create a clearinghouse for the vital education, training and technical assistance needed for owners and workers to navigate the unique hurdles and form a successful employee-owned enterprise. And improving Family Development Accounts will help low-income workers to save to buy shares in a cooperative or purchase a home in a resident-owned cooperative. These proposals are more fully described on the previous page.

A pragmatic agenda to incentivize and support cooperative and employee ownership will go a long way toward creating and preserving jobs in our more economically distressed regions, attracting and retaining more workers in our more prosperous regions, expanding affordable housing and our food economy, and strengthening local ownership. Retiring business owners and farm owners will now have a clear path to ensuring that the community continues to reap the benefits of their productive enterprises. Employee buyouts of threatened businesses can avert closings and chart a path toward viability. Residents of manufactured home parks and apartment buildings can take ownership and preserve affordability for good.

Cooperative and employee ownership delivers material benefit to and improves the economic health of workers, families and communities. It does more, though. Cooperatives are uniquely capable of providing a sense of hope and control over our future. Cooperatives promote self-reliance, entrepreneurship, and resilient, interdependent communities, and they do so through locally rooted, private-sector enterprises. **Hope, control over one's future, influence in one's community, self-reliance and community interdependence** – qualities in short supply today in Maine, and around the nation – are all honored and strengthened by fostering a cooperative economy.



Isuken Co-op & the Belfast Co-op

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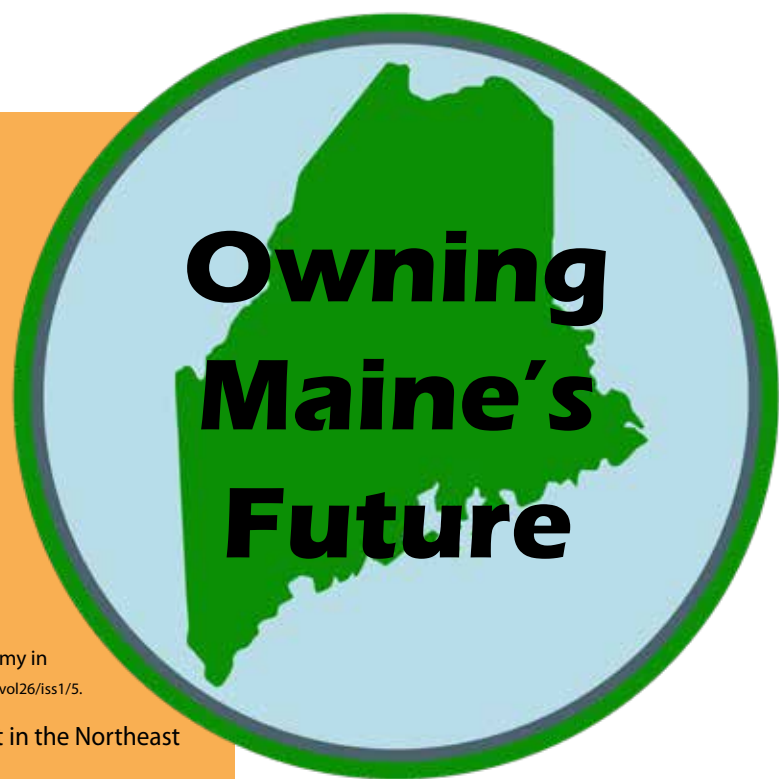
This report is based on a Maine Policy Review Article.

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>.

CDI is the USDA Designated Center for Cooperative Business Development in the Northeast

## For more information

**Cooperative Development Institute** [www.cdi.coop](http://www.cdi.coop)  
**Cooperative Maine Business Alliance** [www.maine.coop](http://www.maine.coop)  
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## IN MAINE THERE ARE:



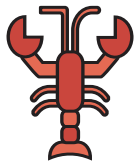
**7,000**

**Worker-Owners** in Maine's  
ESOPs and Worker Cooperatives



**16,000**

**9** Food Co-ops with **\$26 Million**  
in Annual Revenue



**650**

Lobstermen who  
are owners of

**22** Lobster Co-ops  
that land

**30%** of Maine  
Lobsters



**400**

families who live in **9** Housing  
Co-ops



**85** Dairy Farmers who are owners  
of Cabot Creamery



**692,000**

Members of **\$8 Billion** in assets &  
**60** Credit Unions with **\$7 Billion** in deposits

