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SB85: Corporations and Associations - Limited Worker Cooperative Associations - Authorization (Maryland Limited Cooperative Association Act)

Hearing before the House Economic Matters Committee, March 28, 2024

Position: FAVORABLE

The Public Justice Center (PJC) is a not-for-profit civil rights and anti-poverty legal services organization which seeks to advance social justice, economic and racial equity, and fundamental human rights in Maryland. Our Workplace Justice Project works to expand and enforce the right of low-wage workers to receive an honest day's pay for an honest day's work. **The PJC supports SB85, which would allow workers to create worker-owned businesses—i.e., worker co-ops—using a corporate structure designed for them, solving a range of problems that arise when worker co-ops are created using LLCs or other corporate structures.**

The problem: Maryland has no corporate form designed to support worker-owned businesses, which makes it harder for worker co-ops to succeed.

- **There is no corporate form in Maryland that is designed for worker-owned businesses.** State law authorizes five types of cooperatives: agricultural, consumer, electric, transportation, and housing. But Maryland has no corporate form designed for worker-owned businesses.
- **Maryland's Limited Liability Company (LLC) law is a poor fit for many worker co-ops.** Maryland's LLC law was not designed to support businesses with many worker owners. For a variety of reasons, being incorporated as LLCs holds back the growth of Maryland's worker-owned businesses. Issues include (1) the exorbitant cost of workers' compensation because insurance often treats worker-owners as if they own a far greater share of the business than they actually own; (2) confusion around formation and governance because the way LLCs are structured does not match worker co-ops' business model; (3) incorrect recognition by state and financial institutions when the co-op seeks permits or financing; and (4) difficulties accessing funding without relinquishing worker co-ops' core democratic values and governance structure.

SB85's solution: creating a corporate form that is designed to support worker-owned businesses, modeled on successful legislation in other states—and helps worker-owners build wealth and get ahead.

- **SB85 is based on the common-sense idea that worker co-ops will do better when they have a corporate form designed for them.** The Maryland Limited Cooperative Association Act would create that form.
- **SB85 is very similar to a successful Illinois law.** SB85 does not reinvent the wheel. It is a tested, successful model that has helped many dozens of worker-owned businesses thrive in other states, including Illinois.
- **SB85 will help workers of all races and genders become business owners, helping them build wealth and supporting their communities.** Worker-owners have increased earnings and access to benefits. By encouraging and supporting worker co-ops, SB85 will support efforts to bridge the racial wealth gap, overcome historic barriers to development, and promote community stability and growth.

SB85 is the product of months of work by the University of Baltimore School of Law's Community Development Clinic and an extraordinary degree of stakeholder input.

- **Advocates have had many hours of meetings with diverse stakeholders concerning this bill.** Throughout the summer and fall of 2023, advocates have organized meetings with diverse stakeholders ranging from worker owners themselves to the Public Justice Center to members of the MSBA Business Law Section.
- **The bill is the product of considerable expertise.** Clinic students at UB Law were supervised by Professor Jaime Alison Lee, the Associate Dean for Experiential Education with particular expertise in cooperatives, and Professor Peter Norman, a clinical teaching fellow with significant experience in business organizations.

The version of SB85 that passed the Senate 45-0 and is now before you incorporates the Comptroller's proposed amendments and addresses other concerns.

- **The Comptroller proposed certain amendments to address potential tax issues.** Those amendments have been amended into the bill.
- **The MSBA Business Law Section Council's prior objections to the bill have either been addressed or are unfounded.** The Council's Senate testimony generally concerned tax issues that have already been addressed by already-adopted amendments. The testimony also suggested that Maryland does not need a statute designed to support worker co-ops because worker co-ops should just make do with Maryland's LLC law. But for the reasons set out by dozens of worker groups in their written testimony, the LLC law is not working for worker co-ops. As just one of many examples, Peter Ibiak—President of Anytime Taxi, a worker co-op based in Montgomery County that has been forced to organize as an LLC—submitted testimony supporting SB85 and explaining that organizing as an LLC law leads to higher workers' compensation premiums and other forms of financial hardship. For information on worker-owners' needs and experiences, the PJC respectfully suggests that the Committee should look to worker-owners themselves.

For the foregoing reasons, the PJC **SUPPORTS SB85** and urges a **FAVORABLE** report. Should you have any questions, please contact David Rodwin at rodwind@publicjustice.org 410-625-9409 ext. 249.