



SB85 - Maryland Limited Cooperative Association Act
Hearing of the Senate House Economic Matters Committee
March 28th, 2024
1 p.m.

FAVORABLE

Baltimore Roundtable for Economic Democracy (BRED) **strongly urges a favorable finding on SB85 - the Maryland Limited Cooperative Association Act, approved unanimously by the Senate on Monday March 18th, and we support this bill in its current form with all amendments.** We're very excited by the prospect of this legislation becoming code and worker cooperatives in Maryland having ease of formation and governance. The cooperative landscape in Maryland is diverse and touches many and this legislation will bolster this growing sector of entrepreneurship. **The broad-based support for this bill reflects the need for this crucial piece of legislation to support cooperative small business.**

The Maryland Limited Cooperative Association Act creates a corporate entity for limited worker cooperative associations and establishes rules and procedures for formation, governance, conversion, and dissolution of said entities. With this legislation, Maryland will join 30 other states that have worker cooperative statutes, building on best practices from the legacy of worker-owned small businesses in this country and a thriving worker cooperative ecosystem.¹ The Maryland Limited Cooperative Association Act will address the distinct needs of worker cooperatives, solving various pain points and recognizing this growing small business ownership model. It is common-sense legislation that grows our small business community.

BRED is uniquely positioned to speak to the needs of worker cooperatives in Maryland. BRED is a nonprofit organization that provides technical assistance and small business financing

¹ The Democracy at Work Institute notes there are more than 900 worker cooperatives in the United States generating more than \$550 million in annual revenues (see <https://institute.coop/what-worker-cooperative>)

to worker-owned cooperatives. We assist startups and established businesses interested in converting to worker cooperatives. A founding member of the national community wealth cooperative Seed Commons, we connect investment to local cooperative development through nonextractive financing. Our funding prioritizes inclusion and equity, unlocking impactful investment opportunities for local Maryland small businesses that are worker-owned. Our funding has assisted Maryland worker cooperatives for almost 10 years, building a more democratic and equitable economy by focusing resources in marginalized communities frequently excluded from traditional lending avenues. We've committed almost \$10 million in patient capital for worker cooperatives across Maryland since our launch in 2015.

Maryland does not currently have a worker cooperative statute. Despite Maryland's worker cooperatives leading the way nationally to bring services, products, education, and more to our communities, frequently drawing attention for their business acumen and dedication to economic democracy, no corporate entity recognizes the unique structure of this small business model. It is essential that Maryland law respond to the growing worker cooperative ecosystem, creating a worker cooperative statute that provides clarity regarding formation and governance, protects essential elements of the democratic business model, and codifies the corporate entity such that governmental and financial institutions recognize this model's distinctive needs. Many worker-owners have been needlessly deterred as they navigate a corporation and association code that does not include or recognize the core values of worker cooperatives in both organization and operation.

The current corporate structures do not meet the needs of worker cooperatives. Maryland's LLC law hinders worker cooperatives' ability to do business. Pain points include (1) confusion surrounding legal incorporation, filing documents, naming stipulations, and entity selection; (2) exorbitant workers' compensation fees; (3) difficulty navigating taxation; (4) confusion regarding the process of converting established businesses into worker-owned cooperatives; and (5) accessing funding without relinquishing core economic democracy values.² At its worst, the current law regulating workers compensation allows insurance companies to treat worker-owners as *both* employees and owners, thus making assumptions about their income and treating them as if their income is far greater than the reality. This assumption often prevents a worker cooperative from breaking even. Rather than adding a new article to the code, SB85 creates specific amendments to the current LLC law that would provide worker cooperatives with more clarity, ease the burden of high workers' compensation fees, and protect the integrity of worker-owners' voting rights when soliciting investments.

Worker cooperatives are beneficial for workers, their industry, and their community: We should be making it easier to incorporate as a worker cooperative, not harder. Worker

² Haag, M., & Lucido, J. J. (2021). *Cooperative legal landscape reports: Traditional and limited cooperatives*. University of Baltimore School of Law.

cooperatives provide many benefits for worker members and the industries in which they operate.³ Worker-owners have increased earnings and access to benefits, wealth, skill building, control over their working conditions and business decisions, and dignity in the workplace. For the industries and small business environments in which they operate, they enhance growth and productivity, reduce employee turnover, and provide a more sustainable business model. Indeed, the U.S. Federation of Worker Cooperatives has noted that worker cooperatives are better able to adapt in times of crisis, with workers more likely to have kept their jobs during recent crises like the 2008 financial crisis and the COVID-19 pandemic.⁴ Worker cooperatives also provide social innovation, are dedicated to environmental sustainability as a matter of principle, and correlate with a wealth of social benefits including bridging the racial wealth gap, overcoming historic barriers to development, and promoting community stability and growth.⁵

Worker cooperatives undoubtedly are a benefit to the small business community and catalyze remarkable gains for worker-owners. The health of our state's cooperative ecosystem; the benefits to industry, workers, and economic development; and the protection of long-standing small businesses necessitate the codification of a worker cooperative statute. It is essential that Maryland join the majority of states in our nation with similar legislation that addresses the unique business needs of worker cooperatives by passing the Maryland Limited Cooperative Association Act.

SB85 is the result of years of research, analysis, experience, and stakeholder conversations on limited worker cooperative associations. All components of SB85 were determined through the careful determination of best practices from previous legislation passed by other state legislatures; interviews and analysis conducted by University of Baltimore law students retained by the Baltimore Development Corporation with key local and national worker cooperative stakeholders, including Co-Executive Director Kate Khatib of the worker cooperative CDFI Seed Commons; and the University of Baltimore Community Development Clinic supervised by Professors Jaime Lee and Peter Norman. During the last year, BRED has met with numerous stakeholders in the legal and economic justice fields, including the Public Justice Center and members of the Maryland Bar Association Business Law Section Council. The bill as unanimously passed by the Senate reflects the amendments made in response to the MD Comptroller's office and MD business attorney feedback. This well-crafted legislation addresses the formation, governance, taxation, conversion, and dissolution of worker cooperatives in keeping with the values and principles of the International Cooperative Alliance while adhering

³ Abell, H. (2014). *Worker cooperatives: Pathways to scale*.

<https://project-equity.org/wp-content/uploads/2023/06/Worker-Cooperatives-Pathways-to-Scale.pdf>

⁴ Manklang, M., & Trenholm, Z. (2021). *Worker co-ops: Weathering the storm of COVID-19 and beyond*. Democracy at Work Institute & U.S. Federation of Worker Cooperatives.

<https://institute.coop/resources/worker-co-ops-weathering-storm-covid-19>

⁵ Nembhard, J. G. (2014). *Benefits and impacts of cooperatives*. Howard University Center on Race and Wealth and John Jay College of Criminal Justice.

<https://geo.coop/sites/default/files/0213-benefits-and-impacts-of-cooperatives.pdf>

to the Maryland Code. BRED is confident that this legislation will solve current worker cooperative pain points and facilitate the formation and sustainability of future small businesses.

BRED and the following Maryland-based worker cooperative signatories urge the committee to issue a **FAVORABLE report for SB85**. If you have any questions about this testimony, please reach out at christa@baltimoreroundtable.org.

Worker Cooperative Signatories:

Red Emma's Bookstore and Coffeehouse
Mera Kitchen Collective
Cross Atlantic Chocolate Collective
Anytime Taxi
Metta Integrative Wellness
Appalachian Field Services
Earthbound Building

Thread Coffee Roasters
Taharka Brothers Ice Cream
Common Ground Cooperative
The Greener Kitchen
EnviroCollab
Cajou Creamery