BAC Testimony on MD SB 653 2.26.25.pdf
Uploaded by: Bill McQuade
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TESTIMONY OF BILL MCQUADE
GLOBAL VICE PRESIDENT AND HEAD OF REGULATORY AFFAIRS AND SUSTAINABILITY

BALTIMORE AIRCOIL COMPANY

TO THE MARYLAND SENATE
COMMITTEE ON BUDGET AND TAXATION

SENATE BILL 653 - FAV

FEBRUARY 26, 2025

Chair Guzzone, Vice Chair Rosapepe, and members of the Senate Budget and Taxation Committee:

My name is Bill McQuade, and I am the Global Vice President and Head of Regulatory Affairs and Sustainability at Baltimore Aircoil Company (BAC). I am writing to convey BAC's support for Senate Bill 653, sponsored by Senator McCray, which establishes an Employee Stock Ownership Plan (ESOP) pricing preference program for certain procurements by the Maryland Stadium Authority and the University System of Maryland.

As a Maryland-based global manufacturer, BAC has been leading the HVAC, industrial, and refrigeration industries in developing innovative heat transfer and thermal storage solutions for over 85 years. BAC's mission is "to continually advance truly sustainable cooling—inspired by nature, powered by our people—for a world that depends on it to grow, succeed, and thrive." Our product offerings include cooling towers, evaporative condensers, dry coolers, ice thermal storage centers, adiabatic coolers, and immersion cooling systems for data centers.

BAC was founded in Baltimore in 1938 and has evolved into a global leader in cooling solutions, employing over 3,000 people worldwide, including more than 1,300 in the U.S. We employ more than 200 people at our global headquarters and R&D lab in Howard County, Maryland. As BAC continues to lead in sustainable cooling technology, we remain committed to our core values of innovation, environmental stewardship, and customer confidence. Through ongoing research, strategic partnerships, and a focus on sustainability, BAC is poised to shape the future of cooling for the built environment, data centers, and other critical industries.

Our parent company, Amsted Industries, utilizes an ESOP, which fuels innovation, drives results, and provides a pathway to secure retirement for our employees. An ESOP is a qualified defined contribution plan that provides workers with retirement savings through investments in their employer's stock at no cost to the worker. It is regulated under the federal Employee Retirement Income Security Act (ERISA), just like pension funds, 401(k) plans, and other qualified retirement plans. In fact, most employee-owned companies, like Amsted and BAC, offer an ESOP as a supplement to a more traditional 401(k).

The ESOP procurement pricing preference pilot program created by Senator McCray in Senate Bill 653, and its companion, House Bill 861, sponsored by Delegate Pam Guzzone, promotes sustainable businesses that remain locally owned and operated, preserving jobs within Maryland communities. ESOPs are also a powerful tool to help address economic disparities and build financial resilience for working families.

ESOPs provide employees with a direct stake in their company's success, fostering a culture of ownership and engagement. Employees benefit from ESOPs by accumulating wealth as the company grows, providing financial security and stability. Nationally, employee-owners have more than twice the average total retirement balance of Americans: $170,326 compared to $80,339. BAC has approximately 1,300 employees enrolled in Amsted's ESOP program, and since 2020, our share price has increased nearly 60%, benefiting all of our employees.

For business owners, ESOPs serve as a powerful tool for growth, succession planning, and employee motivation. Companies with ESOPs often experience improved financial performance due to higher employee engagement and commitment. Employees with ownership stakes are more likely to remain with the company, reducing turnover and recruitment costs. At BAC's headquarters in Maryland, we are proud to have a 96% retention rate and have welcomed over 100 new hires just in the last year. This demonstrates, in part, the shared value and purpose our ESOP program creates.

In conclusion, we encourage your support for SB 653 to foster employee ownership, build stronger businesses, empower workers, and drive economic growth across Maryland.

Thank you again for the opportunity to provide testimony. BAC looks forward to working with the General Assembly to promote employee-owned businesses and make a significant economic impact in the State of Maryland and around the globe.

ESOP Testimony Letter - EA Final 2-24-25.pdf
Uploaded by: Ian MacFarlane
Position: FAV

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and Technology, Inc., PBC

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24 February 2025

The Honorable Guy Guzzone
Chairman, Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, Maryland 21401

RE: Support for Senate Bill 653, Procurement – Employee Stock Ownership Plan Preference – Pilot

Dear Chairman Guzzone and Members of the Committee,

On behalf of EA Engineering, Science, and Technology, Inc., PBC (EA), we would urge a favorable report on Senate Bill 653. This legislation will grant businesses that operate under the Employee Stock Ownership Plan (ESOP) structure preference for certain procurements by the Maryland Stadium Authority, the University System of Maryland, Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College. For the reasons outlined below, we ask the members of the Committee to vote favorably on this legislation.

The history of ESOPs in the United States can be traced as far back as 1733, when Benjamin Franklin sent journeyman employees to various cities to set up new print shops. Franklin paid for the shop's upfront capital costs –which were significant since most of the equipment had to be shipped from England – and covered one third of the expenses. For the next six years he took one third of the profits. After that, the journeymen could use their profits to purchase the equipment and thereby own the business. ESOP-style ownership plans have continued to play a role throughout the history of the United States, often seeing increased prevalence during pivotal times in our history – the Industrial Revolution, the Great Depression, World War II, and so on.

Currently, ESOPs in Maryland are not granted any preferential status in the contract selection process, despite the fact that they rank higher in worker retention, higher in growth, and are more recession-resistant than conventionally-owned firms. Importantly, profits from EA and other Maryland ESOPs remain in our state when they are paid out to the employee owners of the company thereby providing greater economic benefits to the State of Maryland. EA Engineering, Science, and Technology Inc., PBC, an environmental consulting firm headquartered in Hunt Valley, serves as proof of this concept. Since becoming a 100% employee-owned ESOP in 2014, EA's stock growth has been about double the S&P 500. On average, EA's employee tenure is over double that of the environmental consulting industry in general, with significantly less employee turnover and a competitive advantage at attracting professional candidates. Looking beyond EA, 5 of the 150 largest US engineering design firms are Maryland-based; 3 of those 5, including EA, are 100% ESOPs.

In summary, Senate Bill 653 will offer Maryland's ESOPs preferential treatment when competing for contracts from some of Maryland's most valuable institutions. On behalf of EA, we request a favorable report on Senate Bill 653.

Please let us know if we can answer any questions. Thank you for your consideration.

Sincerely,

EA ENGINEERING, SCIENCE,
AND TECHNOLOGY, INC., PBC

Ian D. MacFarlane

Ian D. MacFarlane
Chair, President and CEO

IDM/pn

cc: Peter Ney, Vice Chair and Secretary

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Position: UNF

SENATE BUDGET AND TAXATION COMMITTEE
Senate Bill 653
Procurement - Employee Stock Ownership Plan Preference - Pilot
February 26, 2025
Unfavorable

Chair Guzzone, Vice Chair Rosapepe and members of the committee, thank you for allowing the University System of Maryland (USM) the opportunity to offer testimony on Senate Bill 653. The bill establishes a price preference for bids and proposals with the USM that utilize an employee stock ownership plan (ESOP).

The USM is comprised of twelve distinguished institutions, and three regional centers. We award eight out of every ten bachelor's degrees in the State. Each of University USM's 12 institutions has a distinct and unique approach to the mission of educating students and promoting the economic, intellectual, and cultural growth of its surrounding community. These institutions are located throughout the state, from Western Maryland to the Eastern Shore, with the flagship campus in the Washington suburbs. The USM includes three Historically Black Institutions, comprehensive institutions and research universities, and the country's largest public online institution.

ESOPs have been around since the 1950's, but it wasn't until the passage of ERISA in 1974 that stock option plans became widely accepted. The basic purpose of an ESOP is to transfer ownership of employer stock to the employees without having to resort to the sale of the business to "outsiders." An employee stock ownership plan (ESOP), overseen by the Internal Revenue Code (IRC) section 401(a), is a qualified defined contribution plan that is a stock bonus plan. ESOPs must be designed to invest primarily in qualifying employer securities that meet the requirements IRC section 4975(e)(8) and meet certain requirements of the Code and regulations.

The fiscal impact of Senate Bill 653 is difficult to determine. The bill would have an operational impact requiring changes to the USM Procurement Policies and Procedures that were updated last year with the approval of the USM Board of Regents, review of the Administrative Executive and Legislative Review Committee and approval of the Maryland Board of Public Works. The bill would require USM to establish a price preference for bidders\offerors who can verify that they offer one (of four) ESOPs the IRC allows.

Senate Bill 653 applies to contracts under $80 million – essentially applying to all USM procurements because few USM contracts exceed that threshold. The bill would apply to both Invitations for Bid (IFB) procurements as well as Competitive Sealed Proposal (CSP) procurements. The bill would require USM to set a preference not to exceed 5% and award could be made to a firm that ***"exceeded the lowest bid"*** or ***"exceeded the lowest cost."*** The percentage set would be subject to approval by both the USM Board of Regents (revisions to procurement policies see above) and the Maryland Board of Public Works.

The bill would also require USM to provide reports on the effectiveness of the program for fiscal years 2026, 2027 and 2028. It should be noted that price preferences are typically only used in an IFB where price is the determining factor in contract award. The bill's requirement to apply this to a CSP procurement would be extremely challenging to implement because each request for proposals is structured differently. For example, some RFP's give more weight to technical than financial so it is unclear how that part of the bill could be done. Moreover, the bill would have an operational impact based upon the above described changes that would need to be made and the creation of affidavits for bidders\offerors to certify that they offer ESOP. The reporting requirements would also add another operational burden on USM institutions some of whom only have one or two staff that are responsible for procurement.

The USM knows you're well aware of the current budget climate as we all are. The recently proposed deductions to our budget of 5% equate to $111 million. This is in addition to last year's cut and another mid-year cut to the FY25 budget which leaves the USM down over $180 million cumulatively in FY25 and FY26. The imposition of additional policy changes at this time would be more than challenging for all of our campuses on top of these reductions.

The bottom line is that adding more complexity, and potentially more costs, to an already complex procurement process negatively impacts small businesses, veteran owned business and minority businesses as the majority of these firms have sole ownership and do not trade publicly.

For these reasons, the USM respectfully requests an Unfavorable Report on Senate Bill 653.

Contact: Susan Lawrence, Vice Chancellor for Government Relations, slawrence@usmd.edu