

SEED COMMONS

January 7, 2025

To the Judicial Proceedings Committee,

I am submitting this testimony in support of SB144 today, as the Co-Executive Director of Seed Commons, one of the nation's largest CDFI lenders dedicated solely to the support of worker-owned businesses across the country, and as a co-founder of Red Emma's Bookstore Coffeehouse, Baltimore City's oldest and largest worker-owned cooperative. I am in strong support of the Maryland LCA Act, because I believe that it removes many of the barriers that cooperative entrepreneurs like myself face as we strive to build democratic workplaces that exemplify the principles of cooperation and collective management. In a worker-owned cooperative, there is no one single owner who calls the shots - all of the workers work together to ensure the growth and success of the business, to share in the day to day responsibilities of operating the business, and, when times are good, to share equally in the profits that the business generates.

I believe that the LCA designation is a critical tool for cooperative entrepreneurs, developers, and educators. It removes many of the barriers to cooperative formation by giving us a clear and consistent way to start new cooperatives and convert existing businesses into cooperatives, without forcing us to jump through legal hoops and hack something together that approximates democracy, while at the same time, forcing us to continually justify our ownership structure. We have one of the fastest-growing cooperative ecosystems in the country here in Maryland. This Act will establish a standard legal form for those cooperatives, and provide a new level of clarity for those looking to start democratic workplaces or convert an existing business.

At Red Emma's, we struggled for years trying to make the existing options work, cobbling together a legal form that at best approximated the simple principles of cooperation and self-management we wanted to embody. We faced significant challenges around employee/employer taxation regulations, because we incorporated as an LLC with all of our workers as members; we faced significant hurdles around obtaining workers compensation insurance at rates that matched the actual labor costs of our business - at one point incurring a \$28,000 workers compensation insurance bill for a single year, for a business that paid, at that time, less than \$300,000 in wages. We went through an expensive and inelegant conversion from an LLC to a corporation, so that we could have the ability to bring in much-needed investment to fuel our business growth, in a way that didn't conflict with securities law or limit our ability to raise capital on the terms that worked for our needs. As a cooperative educator and

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developer, working across the state, I have seen countless projects stumble on these same issues.

In Maryland, a core focus of cooperative development and a key site of growth is in the communities who have historically had the least access to economic resources. Removing these barriers by streamlining the process of worker cooperative formation is an essential step we can take towards a more democratic economy.

The Maryland Limited Cooperative Association Act, if enacted, would provide a powerful tool for cooperative entrepreneurs, developers, and educators, by outlining a template grounded in best practices and hard-won lessons for anyone starting a worker cooperative to adopt and follow, whether that cooperative wanted to use more traditional management structures or operate in a more directly democratic way.

The Act would also crucially make sure that cooperatives can access the investments from their communities that they need to start, scale, and grow, without compromising their democratic principles. This simple and streamlined way to unlock more community investment for cooperatives is also designed to make these communities more invested in their success—a win for everyone.

Additionally, the Act would also remove a disproportionate financial burden faced by some worker cooperatives like my own when they try to protect their worker-owners with a workers compensation policy, by providing the educational guidance insurers need to properly account for broad-based democratic ownership.

By establishing a standard default legal form for worker cooperatives in the State of Maryland, this Act will provide a new level of clarity for those looking to start democratic workplaces or convert their existing business to democratic ownership, accelerating the already exciting growth we see in the state's cooperative sector today.

Thank you for your consideration,

Kate Khatib

Co-Executive Director, Seed Commons | Worker-Owner, Red Emma's