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RE: SB144/HB15 - Limited Worker Cooperative Associations - Authorization - Favorable

Judicial Proceedings Committee

To: Chair, William C. Smith, Jr., Vice Chair, Jeff Waldstreicher, and members of the Committee

I strongly support SB 144, which unanimously passed the Senate last year. This proposed statute would clarify the way in which a worker cooperative could form in the state of MD, be treated, and attract investors. It is a needed structure for supporting and strengthening worker cooperatives in the state.

I am the Executive Director of the Keystone Development Center, a regional nonprofit formed in 1999 serving MD, PA, NJ and DE and providing technical assistance for the formation and strengthening of cooperatives. I have personally been working with employee-owned firms including worker cooperatives since 2002.

A worker cooperative is a business owned and democratically controlled by the people who work in it. Worker cooperatives are laboratories of democracy, teaching their members important skills in civics, entrepreneurship, and community participation. In addition to this role, cooperatives also allow greater economic security and stability for their members, as well as enhanced workplace conditions. In certain industries, the presence of worker cooperatives acts as a "high road" element that brings up wages and improves working conditions for all workers.

In the state of Maryland, worker cooperatives have been developing due to these beneficial aspects. Worker co-ops in MD offer work opportunities to returning citizens, contribute to climate change mitigation through plant-based foods, natural building, and bicycle repair, foster knowledge building through book sales and events, secure the continuation of legacy and high tech businesses, and promote fair trade with farmers in the Global South. But they have also been encountering difficulties, challenges, and roadblocks that significantly slow the expansion of this form of business. Five issues in particular have been hindering the development of worker cooperatives, and the proposed statute addresses each of these.

**Incorporation.** Many aspiring worker-owners have experienced confusion when it comes to legal incorporation, filing documents, naming stipulations, and entity selection when they are starting their business. In other states, worker cooperatives

statutes are clear about incorporation and how to file with the state. The Limited Worker Cooperative Association statute would provide clear guidelines.

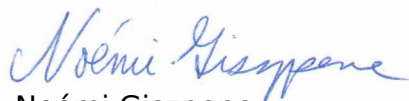
**Workers Compensation.** Businesses must pay for workers compensation in case of injury on the job that leads to a worker not being able to work. But businesses owned by the workers sometimes have to pay exorbitant workers comp insurance as if the workers are highly-paid bosses. Electing to be an LWCA would signal to insurance companies that the business should be treated differently.

**Taxation.** Navigating taxation as a worker cooperative can be difficult and cumbersome. The Maryland tax code is based on a default understanding of business with one business owner. Updating Maryland's tax code can go a long way towards easing the burden on worker cooperatives.

**Transition to worker ownership.** As more baby boomers retire and seek to sell their business to their workers, we must have an easy process for them to do so. A clear process to turn established businesses into worker cooperatives will preserve jobs and create new business leaders. The proposed LWCA statute allows a very clear way to elect a new business form.

**Values-aligned funding.** It can be very difficult to secure outside funding for a worker cooperative from traditional avenues. Many banks and investors do not understand the unique nature of worker cooperatives. Policy that preserves the values of economic democracy and co-ownership governance begins to address the issue. The Limited Worker Cooperative Association provides a clear way for lenders and retiring business owners to lend money to a worker co-op while preserving the democratic ownership and control of the co-op.

By enacting this bill, you improve our existing laws and allow Maryland residents to come together to gain the benefits from greater cooperative effort. Please support.



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