



# Senate Committee on Community, Economic and Recreational Development

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Senate Resolution 408, Printer's No. 2139

Date: September 23, 2014

Sponsor: Senator Greenleaf

## Resolution Summary

Senate Resolution 408, Printer's No. 2139 resolves that the Senate urge the Department of Community and Economic Development (DCED) to establish an employee stock ownership program [in relation to employee stock ownership plans (ESOP)] in this Commonwealth. It is further resolved that the program should include:

- 1) Education and outreach to inform employees, employers and entrepreneurs about the benefit of employee ownership;
- 2) Technical assistance to assist efforts to form and transition to (full or partial) employee-owned businesses;
- 3) Training employees and employers with respect to methods of employee participation in open-book management, work teams, communities and other approaches for seeking greater employee input; and
- 4) Developing partnerships with the State System of Higher Education, State-related universities, and a business and industry trade association in order to host educational events to promote awareness and understanding of employee ownership of business.

The rationale for this resolution is represented by the following whereas:

- ESOPs serve the dual purpose of providing retirement savings and stock ownership for employees and a finance method for businesses.
- There are about 12,000 ESOP-owned companies or similar trust-based plans that cover 11 million participants [per National Center for Employee Ownership (NCEO)].
- In Pennsylvania it is estimated that 500 companies with ESOPs or similar trust-based plans covering about 900,000 participants.
- Research shows that employee ownership increases employment, productivity, wages and sales.
- Employee ownership keeps businesses and jobs in state.
- According to NCEO, ESOP companies are 25% more likely to stay in business and employer-owners are four times less likely to be laid off.
- Business owners may be unaware of ESOPs or lack a clear understanding about such.
- ESOPs could provide an effective tool for companies going through ownership transition.
- Increase use of employee ownership plans can substantially increase the income and financial security of citizens of Pennsylvania.

## Amendment Summary [A09328] (Ward)

This amendment tweaks the language in the title and body of the legislation to more definitively reflect DCED is merely urged to promote an employee ownership initiative versus establish a program. It adds

as an alternative to DCED itself providing technical assistance by indicating that DCED can also assist in identifying other resources to provide technical assistance. It also strikes language specifically referencing the training of employees and employers and expands on the types of entities DCED could foster cooperation among in regards to this initiative.

{Background}

ESOPs are an employee-owner method that provides a company's workforce with an ownership interest in the company. The underlying policy for supporting ESOPs is to promote business continuation and job retention and job creation.

In the Employee Retirement Income Security Act of 1974 (Public Law 93-406, 88 Stat. 892), the United States Congress codified a technique of corporate finance which utilizes employee stock ownership, officially named ESOP.