

OWNERS AT WORK

the magazine of the
Ohio Employee Ownership Center

Volume XXI No. 1 Summer 2009

Evergreen Takes Root



Evergreen
COOPERATIVE LAUNDRY



before

This abandoned industrial building will be saved from demolition, salvaging its embodied energy and reusable building materials.

The new clean and rejuvenated building exterior will be enhanced with decorative murals created by local artists. This employee owned business will be housed in an adapted industrial building reborn as a healthy, high-performance "green" building with natural daylit interiors, recycled and regional materials, and low chemical content finishes. It will earn a LEED CI Silver certification.

after



Also...

ESOP Sustainability

Highlights from the 23rd Annual
Ohio Employee Ownership Conference
Employee-Owned Cooperatives Make Better Jobs

OWNERS AT WORK

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The OHIO EMPLOYEE OWNERSHIP CENTER (OEOC) is a university-based program which provides information and technical assistance to retiring owners, buyout committees, labor unions, managers and community-development organizations interested in exploring employee ownership. Center staff can help locate competent and appropriate legal and financial advisors, and perform initial assessments to determine whether employee ownership is a viable option. The OEOC develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, develops and delivers training programs for employee owners, facilitates cooperation among employee-owned firms, coordinates a comprehensive succession planning program, and assists international efforts to privatize businesses through employee ownership.

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Publisher's Note

Are ESOPs sustainable in the long run? And, if so, how? This issue of Owners at Work has a special focus on these questions.

Peter Paquette, Vice President and Treasurer of Massachusetts' Claremont Flock Corporation, has been a key figure in raising this discussion nationally. He addressed the question at the 2009 Ohio Employee Ownership Conference, and we have printed a shortened version of his comments as "Are ESOPs Sustainable?" A sidebar to the Paquette article speaks to what the directors of Ohio employee-owned companies can take into consideration in making their decisions. Note that Ohio corporate law, unlike Delaware's, gives directors latitude to consider interests of the employees, other stakeholders and the community, as well as those of the shareholders.

One of the major threats to ESOP sustainability is the failure to plan for repurchase obligation. Bill McIntyre's "minimize surprises" philosophy has much to recommend it for managing the impact of repurchase liability. This article should be a "must" for ESOP company boards and other fiduciaries, especially following the Antioch Company bankruptcy reported in the last issue of OAW ("Antioch Enters and Exits Bankruptcy").

Can we start new employee-owned businesses and take them to scale? That's a second focus of this issue: the new Evergreen Cooperatives in Cleveland. These employee-owned cooperatives will provide employment and build assets for their working members in the Greater University Circle neighborhoods, in part based on contracts with the major non-profit institutions in this area, which include the Cleveland Clinic, University Hospitals, and Case Western Reserve University. As the name denotes, they are committed to using green technologies and reducing the carbon footprint by providing goods and services to these "anchor" non-profits.

"Revitalizing Communities through Employee Ownership" by the Cleveland Foundation's Bob Eckardt explains the Evergreen project; the Cleveland Foundation's commitment has been key to getting the Evergreen co-ops off the ground. Jackie Yates provides a case study of the Evergreen Cooperative Laundry, the first of the Evergreen Cooperatives, chosen after careful market research indicated strong demand in a growing market. Many of the ideas behind the Evergreen Cooperatives are drawn from the Mondragon cooperatives in Spain, highlighted most recently in the last issue of OAW ("Cleveland Goes to Mondragon" and "Spanish Lessons: Employee-Owned Companies in Ohio on a Mass Scale?")

This issue also features an article on the green house-cleaning cooperatives set up by WAGES in San Francisco. After years in the trenches working to set up individual co-ops, WAGES has developed a network of cleaning cooperatives that are raising wages and benefits for immigrant women in the Bay Area. It's a model that deserves our attention.

The Evergreen Cooperative Laundry Begins Construction Just the First Step ...

Jacquelyn Yates

Although the Evergreen Cooperative Laundry, which poured concrete on May 28, 2009, will be a small enterprise within the multibillion dollar initiative to redevelop Cleveland's Greater University Circle area, its many creators have launched it with the expectation that it will play a very large role in establishing a new generation of worker cooperatives in Cleveland.

The laundry is part of the Cleveland Foundation's economic inclusion strategy to reach out to the Greater University Circle (GUC) neighborhood residents with an approach that promises more visible success than past efforts. "For years, I ran job training programs worth hundreds of millions of dollars, and yet when I looked around the neighborhoods, I thought, 'Where is the impact?'" said India Pierce Lee, Program Director for Neighborhoods, Housing, and Community Development at the Cleveland Foundation.

Lee's thousand-watt smile is on full power when she talks about the plan for the cooperatives. "This is a way to get the residents long-term employment and ownership," she says.

The idea of cooperatives and employee ownership was first raised in a community wealth-building roundtable in December 2006, sponsored by three philanthropic groups: the Cleveland Foundation, the Gund Foundation and the Sisters of Charity. They invited the Democracy Collaborative at the University of Maryland, a nonprofit group with a philosophic commitment to economic stability as the foundation of democracy, to organize the event. Said Ted Howard, Executive Director of the Democracy Collaborative, "Our view is that where democratic life gets created is really in communities where people reside. Not that national policy isn't important, but that if you want a "big D" democracy in which national life is really healthy and meaningful and vibrant, in which people express themselves as strong democratic citizens, where that really gets built is on

the ground, in communities. There are certain conditions that need to exist that allow for that strong, healthy democratic life to flourish. One of which is a sufficient amount of economic stability in the community. Not that there shouldn't be growth and expansion, but stability so that people are not scrambling for their next job and can't afford food for their family."

If building democracy through building economic stability was to be the philosophy of the GUC project, how could it be implemented? "You must build assets. You must develop long term leadership, and you need assets to do that. Without that, you have the boom and bust of community development: because the people who you help succeed leave, then drugs and crime grow back and the community crashes again. This is the cycle that faces so many community development corporations over and over. The trick to avoiding this cycle is to anchor both people and institutions by building assets in the community," stated Cicero Wilson, CEO of Mid-Bronx Desperados Corporation at the December 2006 roundtable.



Evergreen gets under way: from left to right, Dick, Operations Manager, Evergreen Cooperative Laundry; Jake, a prospective employee; Jill, Executive Director, Towards Employment; Willie, a prospective employee; and Jim, Program Coordinator at the Ohio Employee Ownership Center.

Evergreen Cooperative Laundry (ECL)

A few participants at the roundtable were the ones who identified the market possibilities for a laundry. It will be up to the laundry to compete for business and deliver a quality product. A feasibility study revealed that although commercial laundries are known to pay low wages, they are in fact profitable businesses whose earnings go to owners and shareholders, not the employees. Making the employees owners through a cooperative meant that an employee-owned laundry could immediately offer jobs paying a little better than the going rate for such work, offer better benefits and also be a wealth-builder for employees over the years.

To get the laundry up and running, the Ohio Employee Ownership Center provided from its staff Jim Anderson, a former CEO experienced with employee ownership and large-scale industrial processes. Visiting some operating laundries and prospecting for customers in the region, Anderson, with business consultant Stephen Kiel, identified a potential customer base in the 10-county area around GUC. They found 53 hospitals and 259 nursing homes washing an estimated 246 million pounds of laundry per year. Although many institutions do their laundry "in house," Anderson found that ECL could do it more cheaply, with a greener process. The institutions could use their current laundry space for profitable activities and retrain and redeploy their current laundry employees into better jobs in their growing businesses. It was a solution where everyone would benefit.

"We can probably break even at 2 percent of the market, make money at 3 or 4 percent, and we're still a very small share of a growing market," observed Anderson. Kiel, who wrote the business plan for the laundry, observed, "The most important thing is that we're not looking to penetrate [the market] a great deal in order to reach our hurdle. We've got the footprint and the capacity to do 15 million pounds per year, but at 10 million pounds we're looking to penetrate 4% of the marketplace. We think that is a practical challenge and something that is achievable."

As a legal entity, a cooperative is a private company equally owned and democratically controlled by its members, in this case its employees. The laundry will start operations with 25 employees. If business is good, it will add 15 more employees on a second shift. Cooperatives usually begin with a few workers pooling their work and their small personal funds to build up the enterprise. However, the laundry must have expensive machinery from the outset. It will receive a substantial capital investment from foundations and public investment to purchase its equipment and help from state and local government to train its employees. Management, provided by the OEOC, will hire employees from the neighborhoods who will then become co-op members after meeting the probationary period and applying to join. They will pay a one-time membership fee through a wage check off.

Anderson and Kiel planned for six months to launch the laundry -- two months to finalize and order equipment, two months to install the equipment, and two months of training for the employees. The equipment was ordered on July 2, 2008. But funding proved more difficult to obtain than anticipated, delaying the opening from late winter

2008 to late summer 2009.

Modern commercial laundries are capital intensive, and lenders are always dubious of start-ups. In addition, the timing was bad: ECL's search for financing kicked into high gear about the time the 2008 banking crisis shut down lending. Putting the financing together took six months longer than expected and required Cleveland Foundation guarantees to First Merit, the local commercial lender which ultimately put in half the loan. Shorebank, which stepped in for the other half, got first position on the machinery and equipment, enhanced by the fact that it owns the real estate. Most of the financing came from the City of Cleveland, the Cleveland Foundation, and publicly subsidized New Market Tax Credits through US Bank (See table below). The financing could never have come together without the commitment and support of the Cleveland Foundation.

Financing Evergreen Cooperative Laundry

Senior debt:

First Merit (local commercial bank)	750,000
Shorebank	750,000
City of Cleveland	1,500,000

"Equity" (sub-debt through Evergreen Coop Development Fund)

New Market Tax Credits	1,500,000
Cleveland Foundation	750,000

Working capital:

City of Cleveland	200,000
Common Wealth Revolving Loan Fund	250,000

Total	5,700,000
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The laundry washing and drying equipment is made in the U.S., and it is the very latest and most efficient. To reduce the energy needs of the laundry, heat from the used water will be recycled to heat clean water and the laundry will use the "greenest" chemicals acceptable to its customers. Skylights will let in natural daylight, and there are plans to add rooftop solar panels to further conserve gas and electricity.

The laundry building is located in the Shore Bank Complex on 105th and Elk in the Glenville neighborhood, near the boundary of the GUC project. The facility is on a bus line and there is nearby daycare for workers.

An experienced manager is already on staff as well as a maintenance engineer and a leader for operations. These three key employees will receive specialized training and together they will train the other employees.

The final two months of startup will be devoted to training the rest of the employees. With a workforce drawn from people who may have been out of work for a long while, there will be substantial training for all jobs. Anderson said, "There were four training issues that we knew we needed to address: (1) basic job skills; (2) environmental sustainability practice/procedures; (3) equipment operations and (4) employee-ownership training.

continued next page >

"And there's a fifth kind of training that goes to helping families to function when their main problem-solver and main wage-earner is at work. We're going to have, on site, someone who can say, 'You have responsibility to your family and to your job. Let's figure out how to get somebody in your home to deal with those [family problem] issues in the future.'

"The training is definitely connected to our whole business picture: We're going to have higher quality and lower costs, because we're going to have significantly reduced turnover. Being an employee owner, with your own vested account generating income and funds for you in the future, is going to provide some glue to keep you here in the company."

Despite its annual goal of 5 million pounds of laundry per year at startup, expanding to perhaps 15 million pounds over 10 years, Evergreen Cooperative Laundry isn't expected to take anyone's job. Health care laundry is a growing business area, with nursing homes and hospitals flourishing and expanding to serve the growing number of retirees.

Growing Employee Ownership: The Evergreen Cooperative Development Fund

However, the horizons for Evergreen reach beyond creating one successful business. The laundry is expected

to be just the first new employee owned enterprise in the GUC. Additional business opportunities on the horizon include a solar panel installation and service company and an industrial scale greenhouse. After repaying its startup debts, each successful cooperative will contribute a small portion of its profits to the Evergreen Cooperative Development Fund. It will be a nonprofit fund used to start new cooperative businesses in GUC. Says Howard, "It will be a kind of venture capital fund targeted specifically at cooperative development."

Having a variety of cooperative enterprises going at one time will spread the risks of failure and increase the probability that some will succeed. And if just some succeed, they can grow and expand to employ more neighborhood residents.

How long will all this take? Howard observes that it took a long time for economic decline in Cleveland to get to where it is today. "In the 1950s there were over 800,000 people who lived here and now there's less than 450,000."

Jacquelyn Yates is Research Director at the OEOC and Editor of Owners at Work. She is associate professor of political science at Kent State University. [oaw](#)

Coming in the Next Issue...

Karl Warnke, CEO, Davey Tree,
on Davey's 30 years of employee
ownership

Bill McIntyre, OEOC, on how ESOP
companies can deal with unsolicited
offers

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