EMPLOYEE OWNERSHIP TRUSTS: A POLICY REPORT

Prepared by:

RMEOC
Rocky Mountain Employee Ownership Center

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The mission of the Rocky Mountain Employee Ownership Center (RMEOC) is to build a more just and sustainable economy through employee ownership.

We believe that a just economy is one that works for everyone, that is built upon inclusive and sustainable systems, and that provides equitable opportunity to build wealth. Our current economy benefits too few, at the expense of too many. But employee ownership is a powerful tool to change that.

RMEOC's founders understood the power of employee ownership when they launched the organization as a 501(3) nonprofit in 2012 – and we see growing evidence of it every day as we help more and more businesses become employee owned, creating wealth for working people, helping to close race and gender wealth gaps, and building more sustainable, resilient, and profitable businesses that provide long-term benefit to our communities.

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EXECUTIVE SUMMARY

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Executive Summary

This report surveys some key reasons why employee ownership is an increasingly attractive business model, including: the growing “Silver Tsunami” of retiring business owners seeking to “exit with purpose,” a deepening crisis of wage stagnation and economic inequality, and declining community resilience. Employee ownership of businesses has been one promising response, mostly through ESOPs or Worker Cooperatives. A third form of employee ownership, the Employee Ownership Trust (EOT), is an innovative but underdeveloped alternative. This report describes how EOTs operate and why they may be a better model than ESOPs or Worker Coops in some cases. It also surveys the policy landscape guiding the emergence of EOTs and makes policy suggestions for how governing officials can support this promising development.

Three Challenges

Employee Ownership Trusts (EOTs) are gaining attention because they respond to three major economic challenges in the U.S. today: a “Silver Tsunami” succession crises among small businesses, growing inequality in wealth and wages, and the increasing fragility of local economies. EOTs address these challenges by: 1) providing business owners a relatively straightforward way to “exit with purpose,” preserving the legacy of their business while supporting their employees; 2) offering a business model built on employee benefit and shared profits; and 3) rooting businesses in local communities.

ESOPs, Worker Coops, and EOTs

Employee ownership (EO) transforms business ownership from individual owners and outside investors and towards a model of dignified work and shared prosperity among employee-owners and local communities. The three main models of of EO are ESOP, Cooperatives, and Employee Ownership Trusts. Employee Stock Ownership Plans (ESOPs) are a federally-regulated retirement plan through which employees gain owernship of a company through stock shares, held in a trust. Worker coops are a democratic business structure, where workers directly own their business and govern it on a one-person, one-vote basis. Employee Ownership Trusts (EOTs) are a perpetual trust that holds a controlling stake in a business on behalf of employees, and in which Trustees are obligated to pursue employee benefits and other social purposes laid out in a Trust Deed. EOTs are far less complex to launch and maintain than ESOPs, they are well-suited to larger businesses than worker coops and don't demand direct employee governance of the workplace, and they allow for a business to perpetually remain true to social values and purposes embedded in the trust document.

Public Policy Limitations on EOT Expansion

Though EOTs are a flexible and promising model, they remain exceptionally rare in the US, where fewer than 100 exist. This dearth of EOTs is partly a result of public policy: US jurisdictions simply haven't embraced EOTs in law as extensively as they have ESOPs and (to lesser extent) worker cooperatives. This report surveys the few states that do have EOT-enabling policies and describes some common limitations in policy.

Problems include that most states don't mention or define employee owned trusts anywhere in state law, few states offer tax advantages or other financial incentives for creating an EOT, and most officials, business owners, and employees know very little about the model. A dearth of public understanding and supportive legislation is limiting the impact of this very promising business model.

Policy Proposals to Help EOTs Meet Their Moment

The United States can learn from the United Kingdom. In the UK, an EOT-supportive Public Finance Act in 2014 resulted in a dramatic growth of EOTs, such that this business form is now the most popular form of employee ownership there. Though similarly comprehensive federal legislation is unlikely in the fractious US system, state-level policy innovations are possible. Important policy proposals include:

1) Defining EOTs more clearly as a recognized business form in **State Trust Law** and other statutes
2) Providing **Favorable Tax Treatment** for EOTs, such as allowing exemption from state capital gains taxes when business owners sell to EOTs
3) Passing **Preferred Procurement/Bid Preference** policies for EOTs
4) Catalyzing a Stronger **EOT Support Eco-System.**

TABLE OF CONTENTS

Appendices

FIGURES

1
Why EOTs Matter: Contemporary Economic Challenges

Employee Ownership Trusts (EOTs) are gaining attention because they respond to several major **economic challenges** in the U.S. today: succession crises among small businesses, inequality in wealth and wages, and the fragility of local economies.

➢ *Business Succession Crisis*

- **The Challenge**: Tens of thousands of baby boomer-owned businesses are at risk of closing or being sold to out-of-state buyers or private equity because owners are retiring.

- **EOT Response**: EOTs offer a **simple ownership transition tool** that allows retiring owners to sell their companies to local employees, preserving jobs and community wealth. Unlike ESOPs, EOTs don't require complex retirement-plan compliance, and unlike private sales, they ensure that ownership is permanently preserved.

➢ *Wage and Wealth Inequality*

- **The Challenge**: Wealth in the U.S. is heavily concentrated, and most workers have limited access to ownership and capital gains. Wages often stagnate even when businesses do well.

- **EOT Response**: Because EOTs distribute profits broadly among all employees, they **democratize business wealth**. Employees share in the upside of enterprise success, reducing inequality and helping ordinary workers build financial stability.

➢ Job Retention, Community Stability, & Economic Resilience

- **The Challenge**: Traditional ownership structures often prioritize short-term profits and are vulnerable to shocks, leaving workers and communities exposed during downturns. When businesses are sold to absentee owners, jobs often disappear, communities lose anchors, and economic leakage drains local economies.

- **EOT Response**: Local ownership and employee-owned businesses — including those held in trusts — focus on long-term employee benefit and tend to be **more resilient during recessions**. Employees are more engaged, turnover is lower, and companies prioritize stability over speculative returns. They reduce the risk of closures or relocations, keeping businesses embedded in their communities for the long term.

1.1 The Silver Tsunami: A Business Succession Crisis

Locally owned and operated small businesses have long offered a community-level counterweight to the seismic economic challenges of the last half century. Small businesses keep money in local communities, offer dignified work, and are more likely to consider worker needs rather than investor pressures. Research shows that locally-owned businesses are more beneficial for local economic performance than businesses that are not locally controlled, including posting better performance on per capita income growth, employment growth, and reductions in poverty.[1] A 2022 survey from the U.S. Chamber of Commerce found that most small businesses prioritize "giving back to their local communities" by donating to local charities, encouraging collaboration between other local businesses, and targeted discounts focused on groups within their localities.[2] Small enterprises, embedded in their local communities, operate beyond the simple profit motive, providing a shield against larger external forces.[3]

That shield, however, is now at risk. The generational cohort known as the "baby boomers" – people born roughly between the years 1946 and 1964 – own as many as 2.7 million businesses across the country (or roughly half of privately owned businesses in the US).[4] As this generation is reaching retirement age en masse—a phenomenon dubbed the "Silver Tsunami"—projections are that many small businesses will disappear in coming years.[5] Sixty percent of this cohort has done no financial or succession planning, further complicating the ensuing crisis.[6]

For small businesses that are successfully sold to a new owner, that new owner is often a out-of-state buyer or private equity (PE) firm, entities whose priorities may conflict with the long-term wellbeing of employees, customers, and communities. In 2024 alone, PE firms completed

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[1] Rupasingha, A. *Locally owned: Do local business ownership and size matter for local economic well-being?* Discussion Paper No. 2013-1, Community & Economic Development Department, Federal Reserve Bank of Atlanta, August 2013. Retrieved July 9, 2025, from https://www.microbiz.org/wp-content/uploads/2013/10/Local-Ownership-and-Ec-Well-Being.pdf

[2] MetLife and US Chamber, *Q4 2022 Small Business Index*, December 14th, 2022

[3] Penn State Law Entrepreneur Assistance Clinic. (n.d.). *Sustaining Communities Through Small Business*. https://www.psu.edu/impact/story/sustaining-communities-through-small-business/

[4] Gouraige, G. (2024, February 7). *OK, Boomer*. NewEdge Wealth. Retrieved July 14, 2025, from https://www.newedgewealth.com/ok-boomer/

[5] Copeland, R. (2025, January 31). *Boomers Could Cause a 'Silver Tsunami.' Is It a Crisis or an Opportunity?* The New York Times. Retrieved July 14, 2025, from https://www.nytimes.com/2025/01/31/business/silver-tsunami-meaning-boomers.html

[6] Sherman, A. J. (n.d.). *As baby boomers retire, Main Street could face a tsunami of change*. CNBC. https://www.cnbc.com/2019/12/10/as-baby-boomers-retire-main-street-could-face-a-tsunami-of-change.html

7,321 deals totaling $738.1 billion, with 41% of those transactions involving businesses valued under $25 million.[7]

These PE firms increasingly rely on "roll-up" or "add-on" strategies, acquiring multiple small companies to achieve scale and consolidate market share. In the U.S. middle market, add-ons accounted for approximately 78% of all PE buyouts in 2024, up from 72.5% in 2021.[8] This surge has driven more small-business exits: acquisition or small businesses grew by 5% year-over-year, while transaction value climbed 15%, according to 2024 market data.[9]

If the Silver Tsunami of retiring small business owners is not mitigated, communities risk a wave of small business closures, threatening a loss of jobs and erosion of local community wealth and economic stability. The harsh reality is that only about 20% of small businesses listed for sale actually get sold, meaning that upwards of 80% of business owners are likely to face the closure of their life's work – without financial return, continuity, or assurance that what they built will endure. Already, as baby boomer retirement began in 2011, 33% of business owned by these retirees have closed--simply because the owner retired, and not because the business was suffering.[10] Between 2000 and 2018, for example, more than 1,200 U.S. businesses owned by baby boomers, which employed more than 52,000 people, closed their doors.

Colorado is a good example of a state facing the dilemma of how to respond to the Silver Tsunami of retiring small business owners. At its core, Colorado is powered by its small business sector. With more than 715,000 small businesses, comprising 99.5% of all businesses in the state, this sector employs over 1 million people and accounts for half of Colorado's private-sector workforce.[11] These small businesses are thoroughly integrated into the State's economic engine, contributing a substantial amount to Colorado's $455.8 billion in Gross State Product and accounting for 87.1% of CO firms engaged in export.[12] The State's small business sector has also been a vehicle to qualitatively transform the demographics of business ownership in Colorado – with women owning 45.5% of small businesses and racial minorities owning 23.1%.[13]

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[7] *Private Equity Drives Local Growth and Economic Expansion Across America*. (2025, March 5). American Investment Council. Retrieved July 14, 2025, from https://www.investmentcouncil.org/private-equity-drives-local-growth-and-economic-expansion-across-america/

[8] Investment Council. (2025). *Roll-up strategies dominate private equity mid-market deals*. Retrieved July 3, 2025, from https://www.investmentcouncil.org

[9] Forbes. (2025). *Small business exit activity climbed in 2024: Private equity, search funds, and strategic buyers lead the charge*. Retrieved July 3, 2025, from https://www.forbes.com

[10] *Capital Impact Partners and the ICA Group* (2018). Co-op Conversions at Scale: A Market Assessment for Expanding Worker Co-op Conversions in Key Regions & Sectors. City Community Development. See pp.5.

[11] Colorado 2024. (n.d.). *SBA advocacy*. Retrieved July 14, 2025, from https://advocacy.sba.gov/wp-content/uploads/2024/11/Colorado.pdf

[12] Ibid.

[13] Ibid.

But while Colorado's small business economy has been a powerful engine of inclusive growth, it now faces a generational turning point, one that threatens to upend decades of community investment, wealth creation, and workforce stability. Nearly half of Colorado's small business owners are over the age of 55, and Colorado residents over 65 years grew three times faster than people under 65 in the last decade. [14] By 2030, Colorado's population over 65 will be 150% larger than it was in 2010, growing to about 1,350,000, just from aging.

Many of these boomers own small businesses in the state. The Kaufman Main Street Entrepreneur index has found that Colorado baby boomers own small businesses at a higher rate than any other moderate or highly populated U.S. State.[15] According to a 2022 survey by Colorado's Office of Economic Development and International Trade (OEDIT), 70% of these aging business owners reported that they wanted to sell in the next 10 years. Yet, 68% said they have spent minimal time and attention to exit, with 48% having no written or personal financial plan.[16]

For many retiring small business owners, particularly those without succession plans, closing their business or selling to a distant investor is less a strategic decision than a last resort. Yet this often means entrusting their life's work to entities primarily focused on short-term financial returns, not long-term community or employee well-being. Many of these business owners would like a better option rather than closing or selling to an outside party whose priorities rarely align with sustaining local economies, but they aren't sure of options. In a 2016 Department of Commerce survey, 8,266 Colorado business owners aged 65 and over said they would be interested in selling to their own employees – but many do not know how or where to turn for help. More recent surveys by exit planning consultants indicate that up to 60% of retiring business owners prefer an internal sale over sale to an outside party, and that 27% of owners would be very likely to consider coop conversion if they understood it better.[17]

In light of these data, key questions emerge: What alternative strategies can allow small business owners to "exit with purpose", making sure that the mission and values of their enterprise live on? How can business owners ensure that employees and communities are protected after they

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[14]Office of Economic Development & International Trade, State of Colorado. (n.d.). *Colorado Employee Ownership Office*. Retrieved July 3, 2025, from https://oedit.colorado.gov/colorado-employee-ownership-office; https://www.fcgov.com/cityclerk/pdf/garner.pdf

[15] Mendoza, M. (2015). Colorado small business ownership outpaces other large states. *Denver Business Journal*, Dec 9. Retrieved Nov 1 2025, from https://www.bizjournals.com/denver/blog/finance_etc/2015/12/colorado-small-business-ownership-outpacing-other.html

[16] Ibid.

[17] Huseman, J. (2025). White Paper: Evaluating Whether to Sell Your Business to Employees. FNBO: Business Owner Advisory Services. Retrieved November 1, 2025 from White Paper: Evaluating Whether to Sell Your Business to Employees | FNBO. Dunn Rush & Company. (2021). Survey on 2021 Business Priorities. Retrieved November 1, 2025 from https://dunnrush.com/faq-resources/business-owner-priority-survey/

step away? How can public policy help to preserve local ownership, community-rooted wealth, and long-term economic resilience?

The stakes are high: failing to address this impending crisis will deepen economic inequality, undermine regional resilience, and strip communities of the very businesses that form their social and economic fabric. But transitioning of some of these silver tsunami businesses to employee ownership can help mitigate the crisis. As Ownership Capital Lab calculates, converting just 10% of these businesses to employee ownership could preserve thousands of businesses, secure almost 3 million jobs, and generate wealth for millions of families.[18]

1.2 Rising Inequality and Declining Economic Opportunity

Over the course of the past four decades, the U.S. economy has produced historic levels of wealth, but for an increasingly narrow segment of the population. Since the 1970s, inequality has soared year after year,[19] returning the country to Gilded Age levels of income inequality.[20] Current financial disparities have squeezed and hollowed out the middle class, dramatically altering the income trajectory of millions – engendering grim economic prospects for future generations. From 1967 to 2016, median income growth experienced by prime-age Americans has been cut by two thirds, the number of people experiencing a large income loss has more than tripled, the middle class has shrunk, and income growth at the top has grown almost twice as fast as in the middle.[21] The lower- and middle-classes have become downwardly mobile.

The United States has far outpaced the rest of the globe in GDP since the end of World War II, yet there is a staunch disconnect between its top-level macroeconomic achievements and the microeconomic experience for most of its citizens. Statistics on the "productivity-pay gap" describe the perilous situation: from 1948 to 1979 productivity increased by 220% and hourly pay kept pace by increasing by 193%, but from 1979 to 2025, productivity increased by 85% while

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[18] Katcher, K., and Lingane, L. (2025). The Silver Tsunami, the Great Wealth Transfer and the future of employee ownership in the United States. Ownership Capital Lab. Retrieved Nov 11, 2025 from https://ownershipcapitallab.capital/wp-content/uploads/2025/04/The-Silver-Tsunami-Great-Wealth-Transfer-and-future-of-EO-in-the-US_Ownership-Capital-Lab_March-2025.pdf

[19] Sherman, A., Trisi, D., & Cureton, J. (2024, December 11). *A Guide to Statistics on Historical Trends in Income Inequality*. Center on Budget and Policy Priorities. Retrieved July 11, 2025, from https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality

[20] *Income Inequality*. (n.d.). Inequality.org. Retrieved July 11, 2025, from https://inequality.org/facts/income-inequality/

[21] Rose, S. (2020, August). *Squeezing the middle class: Income trajectories from 1967 to 2016.* Brookings Institution. Squeezing the middle class: Income trajectories from 1967 to 2016

hourly pay increased by only 32%[22] – meaning productivity has grown three times as fast as wages. Union decline, weakened bargaining rights, and policy preferences shifting in the favor of capital have severed the link between wages and productivity.[23] Between 1979 and 2021, the average incomes of the richest 0.01 percent of households grew nearly 27 times faster than the income of the bottom 20% of earners.[24] Additionally CEO compensation has skyrocketed 1,085% compared to 24% for middle class workers.[25] These developments show how prosperity is being redistributed away from workers, communities, and the majority of the country.

Traditional business ownership structures and financial deregulation has aided the balance sheet of America's largest corporations and allowed wealth to increasingly concentrate in upper-class groups. Mechanisms like stock buybacks, which are set to return a record of $1.1 trillion to S&P 500 shareholders, siphon money away from productive investment and towards enriching the executive class.[26] Already, the top 10% of households hold 93% of all value in the stock market, despite record participation.[27] The small circle of individuals that gain from these economic circumstances is set to compress further in the near future, with the passing of one generation and the transfer of wealth to a small number of heirs.[28]

Traditional forms of banking and finance have brought similar issues; only 15% of the money flowing from financial institutions actually makes its way into productive business investment.[29] This has stifled the low- and middle-class' ability to access the necessary capital to finance small business needs–barring them from economic mobility and wealth accumulation through business ownership.[30] The remaining 85% of capital is largely absorbed by corporate mergers, stock

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[22] *The Productivity–Pay Gap*. (2025, May 15). Economic Policy Institute. Retrieved July 11, 2025, from https://www.epi.org/productivity-pay-gap/

[23] Mishel, L., & Eisenbrey, R. (2015, March 19). *How to Raise Wages: Policies That Work and Policies That Don't.* Economic Policy Institute. Retrieved July 11, 2025, from https://www.epi.org/publication/how-to-raise-wages-policies-that-work-and-policies-that-dont

[24] Inequality.org. *Income Inequality*. Retrieved July 9, 2025, from https://inequality.org/facts/income-inequality/

[25] Bivens, J., Gould, E., & Kandra, J. (2024, September 19). *CEO pay declined in 2023.* Economic Policy Institute. Retrieved July 11, 2025, from https://www.epi.org/publication/ceo-pay-in-2023/

[26] Hur, K. (n.d.). *American Companies Are Buying Their Own Stocks at a Record Pace*. Wall Street Journal. https://www.wsj.com/finance/stocks/stock-buybacks-2025-3b0ddedd?reflink=desktopwebshare_permalink

[27] Sor, J. (2024, January 10). *The wealthiest 10% of Americans own 93% of stocks even with market participation at a record high.* Yahoo Finance. Retrieved July 14, 2025, from https://finance.yahoo.com/news/wealthiest-10-americans-own-93-033623827.html

[28] McKenzie, D., & Gill, M. (2024, March 3). Millennials will be the richest generation ever. *The Guardian.* Retrieved July 22, 2025, from https://www.theguardian.com/commentisfree/2024/mar/03/millennials-will-be-the-richest-generation-ever-but-who-gets-wealth-is-up-to-luck

[29] Foroohar, R., & Mosler, W. (2016, November 15). *The Economy's Greatest Illness: The Rise of Unproductive Finance*. Evonomics. Retrieved July 11, 2025, from https://evonomics.com/financialization-hidden-illness-rana-foorohar/

[30] Brian Headd, *The Importance of Business Ownership to Wealth,* U.S. Small Business Administration Office of Advocacy, August 2021,

buybacks, and dividends.[31] The passage of Trump's 2025 "Big Beautiful Bill" will deepen merger and market consolidation trends, as the 21% corporate tax rate, originally established in 2017, becomes permanent – freeing up more cash for top firms to further consolidate their power.[32] As investment in real production declines, firms are chasing growth through consolidation.

These structural trends have disproportionately harmed communities of color. In the U.S., glaring wealth gaps remain along heavily racialized lines. Despite racial minorities maintaining a steady 70% labor force participation rate,[33] white families' average wealth in 2022 was more than six times the average wealth of Black, Hispanic, and other non-white families.[34] Structural racism in the United States is directly correlated with sustained wage gaps between white and non-white workers,[35] perpetuating cycles of poverty among these groups.

In this kind of economy, it's hard to see how most members of marginalized populations like immigrant or low-income can ever find a quality job with financial security and prospects to grow real wealth. Moreover, there is nothing about the rapidly growing "gig economy" of freelancers and contingent jobs that suggest things will be getting better. Today, somewhere around 52 million Americans (35% of the workforce) are contingent workers in temporary positions without benefits.[36] Many of these workers take positions as drivers or delivery persons with immensely profitable platform companies like Uber, Instacart, or Grubhub, where they are treated as "independent contractors" and thus not entitled to benefits like health insurance, paid sick leave, or overtime pay. These workers, and so many others with poor pay and worse prospects, are part of a "hollowed out" world of work in which millions are permanently displaced from hopes of dignified, creative, and decently paying work. For precarious, low-income workers like these —who dream of something bigger than a dead-end job—the challenges are profound. How can they ever hope to gain the economic or social power to make their dreams real? Facing questions

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[31]Medlen, C. (2025). Free Cash, Spillage, and Capital Mergers. *Monthly Review: An Independent Socialist Magazine, Volume* (8). https://monthlyreview.org/2025/01/01/free-cash-mergers-and-capital-spillage

[32]The White House, *President Trump's One Big Beautiful Bill Is Now the Law*, July 4, 2025, https://www.whitehouse.gov/articles/2025/07/president-trumps-one-big-beautiful-bill-is-now-the-law/.

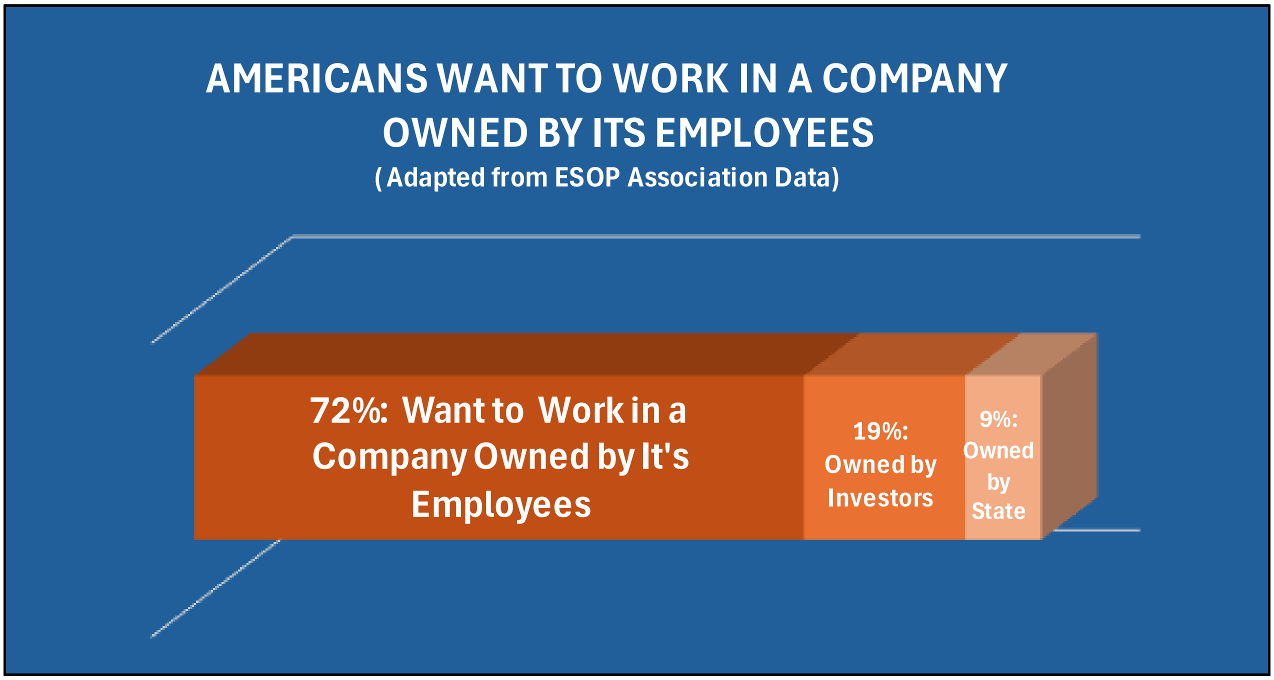
[33]*Racial and ethnic disparities in the United States: An interactive chartbook*. (n.d.). Economic Policy Institute. Retrieved July 11, 2025, from https://www.epi.org/publication/disparities-chartbook/

[34]Aladangady, A., Bricker, J., Chang, A. C., Goodman, S., Krimmel, J., Moore, K. B., Reber, S., Henriques Volz, A., & Windle, R. *Changes in U.S. Family Finances from 2019 to 2022: Evidence from the Survey of Consumer Finances* (Report, October 1, 2023). Board of Governors of the Federal Reserve System. Retrieved July 9, 2025, from https://www.federalreserve.gov/publications/files/scf23.pdf

[35]Celeste K. Carruthers & Marianne H. Wanamaker. *Separate and Unequal in the Labor Market: Human Capital and the Jim Crow Wage Gap.* National Bureau of Economic Research. January 2016. Retrieved July 9th, 2025, from https://www.nber.org/system/files/working_papers/w21947/w21947.pdf

[36] https://www2.staffingindustry.com/Editorial/Daily-News/Number-of-US-contingent-workers-totals-51.5-million-temps-assigned-by-staffing-firms-at-8.5-million-SIA-report-58836

like these, it's not surprising that the ESOP association found that 72% of Americans want to work for a company owned by its employees.[37]



1.3 Declining Local Economic Resilience

The challenge of local economic resilience is related to an increasingly extractive economy of migrant firms, unrooted to any particular location. In fact, the number of single-establishment "migrant" firms moving from one state to another more than doubled from 3,261 firms in 1994 to 6,384 in 2021. When firms "pull up stakes" to move to areas of possibly lower costs or fewer regulations, local communities lose employment, wealth, and infrastructure investment. BLS data shows that From January 2021–2023, about 2.6 million workers in the U.S. lost long-held jobs (3+ years of tenure). Among them, 36.5% lost jobs because a plant or company closed down or moved and another 37.5% lost jobs because their position or shift was abolished.[38] These data reflect the instability generated when decisions are made by business owners not rooted in and committed to local communities: communities lose the ability to withstand or recover from economic disruptions such as business closures, industry shifts, and global shocks.

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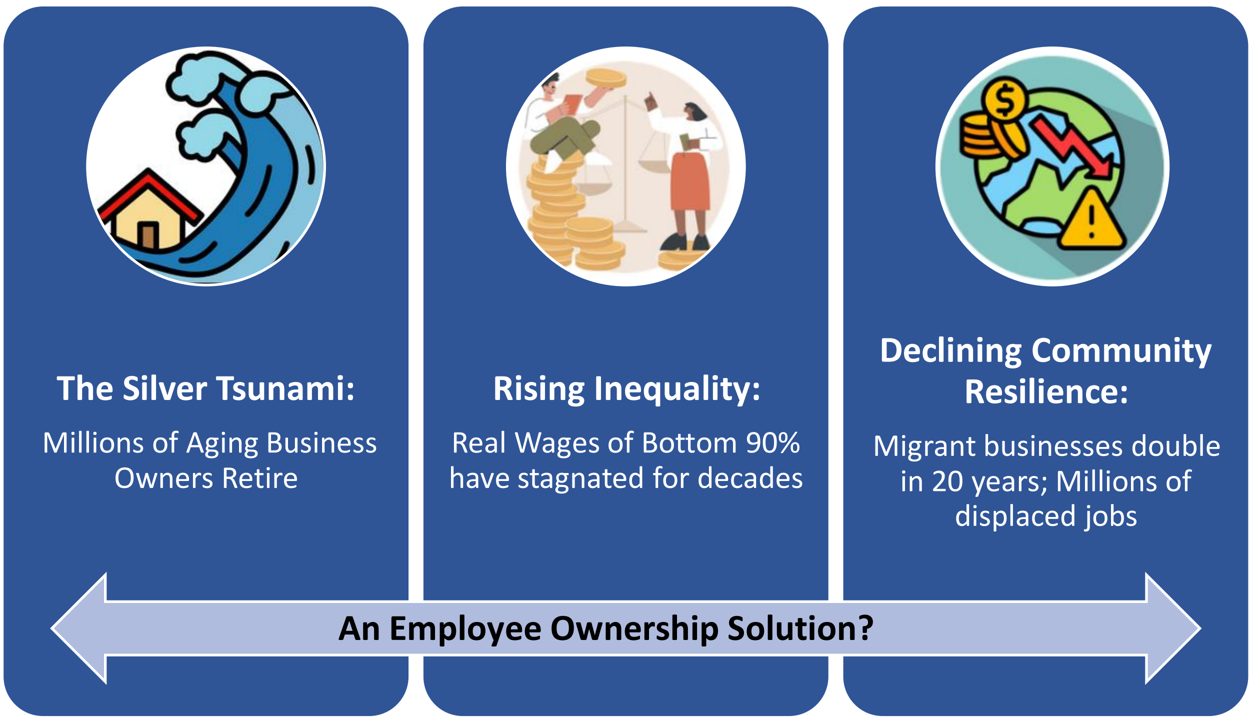
[37]Employee Ownership Foundation. (n.d.) Americans Want to Work for Employee Owned Companies. Retrieved Nov 1, 2025 from https://www.employeeownershipfoundation.org/research/americans-want-to-work-for-employee-owned-companies

[38] Bureau of Labor Statistics. (2024). Worker Displacement News Release. Retrieved Nov 1, 2025 from https://www.bls.gov/news.release/disp.htm?utm

Even when local communities are successful in attracting businesses owned from beyond, it doesn't always result in a flourishing local economy. Much of the business income of migrant enterprises and private equity is not reinvested locally, but extracted by outside investors. This dynamic runs counter to what economists call the "Multiplier Effect," a term introduced by the American Independent Business Alliance to describe how locally owned businesses recirculate three times more of their revenue within their communities compared to non-local corporate chains or absentee firms.[39] When ownership shifts to absentee firms, that cycle is disrupted – dollars that once supported local wages, vendors, and services are siphoned off, weakening the long-term economic vitality of the region. Without accessible and values-aligned alternatives, local communities in Colorado and elsewhere risk losing not just businesses, but the community identity, local jobs, cultural infrastructure, and the generational wealth they sustain.



[39] AMIBA, Institute for Local Self-Reliance, and Civic Economics, *The Local Multiplier Effect: How Independent Businesses Strengthen Local Economies* (2021), https://amiba.net/wp-content/uploads/2021/02/The-Local-Multiplier-Effect.pdf.

2
An Employee Ownership Solution: ESOPs, Worker Owned Cooperatives, and EOTs

The broad challenges of today require fresh imagination. To enable the baby boomer generation to retire with dignity, push back against mounting socio-economic challenges, and protect community economies, a new strategy that supports viable economic alternatives must be deployed. These alternatives must depart from traditional modes of workplace organization in order to foster a more equitable and economically mobile society–one that makes possible a brighter future for all, not just a privileged few. Fortunately, a growing movement that champions workplace democracy and economic justice already exists, and is well-positioned to confront these structural challenges and build a more inclusive economy. At the forefront of this movement is Employee Ownership (EO), a rising force in the American economy and a powerful model for addressing recent economic challenges. Over the past decade, the number of employee-owned businesses has more than tripled,[1] with more Worker Cooperatives (WCs), Employee Stock Ownership Plans (ESOPS), and Employee Ownership Trusts (EOTs) being formed every year.[2]

2.1 The Economic and Social Benefits of Employee Ownership

There is reason for optimism in the growing employee ownership (EO) movement. Overwhelmingly, research has shown that EO models reduce inequality, produce higher profit margins than average private firms, are more resilient to economic shocks, and increase employee engagement at the workplaces and in the community.[3] EO models provide better pay and more robust benefit—millennial workers in employee-owned businesses have 33% higher median wages and access to more benefits compared to their peers at firms with traditional ownership structures.[4] One study found that the average hourly wage of workers in employee-owned businesses in 2021 was $19.67, more than $7.00 higher than the minimum wage in 13 states. Another study found average wages at employee-owned companies to be 13% higher than traditionally-owned businesses. Mirroring the resiliency of its worker-owners, employee-owned companies tend to have more secure jobs—with fewer layoffs and higher employee retention. Only 2.6% of worker-owners found themselves unemployed after the Great Financial

[1]Democracy At Work Institute, *2023 State of the Sector Report,* 2023
[2]Project Equity, *Employee Ownership Then and Now - a 10 Year Look Back*. March 29th, 2025, from https://project-equity.org/news/employee-ownership-insider/10-year-look-back/
[3]Project Equity, *The Case for Employee Ownership,* May 2020
[4]Ibid.

Crisis of 2008 (GFC), compared to 12.3% of non-owner employees. What's more, both before and after the GFC, employee-owned enterprises demonstrated higher average employment growth than the broader economy.[5] As a result of such dynamics, studies have found that family income of coop owners often goes up by 80%-100% over a multi-year period.[6] EO models have proven especially effective in narrowing gender and racial wealth gaps—far outpacing non-employee-owned firms, especially by increasing the power and financial stability of women and women of color.[7]

As an additional benefit, cooperative members are more likely to spend their money locally, generating beneficial "multiplier effects" as their dollars recirculate through local businesses, jobs, and charities. [8] Furthermore, workers in employee-owned companies show higher rates of civic engagement. There are many studies revealing that employee ownership–"solidarity as a business model"[9]—becomes a "cultural and normative force"[10] that radiates outwards in expanding networks of reciprocity and trust. When workplaces are owned and operated democratically, a new operating logic takes overs—one rooted in solidarity and mutual prosperity, not extractive economics. [11]

Growing levels of social interaction and community trust associated with an employee-ownership model feed into a virtuous cycle of deeper community connections and social engagement among employee-owners that is of measurable benefit to the broader community.[12] For

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[5]National Cooperative Business Association. (2020). Worker co-op employees now earn an average of $19.67 per hour, according to new report. Retrieved November 1, 2025 from https://ncbaclusa.coop/blog/worker-co-op-employees-now-earn-an-average-of-19-67-per-hour-according-to-new-report/

[6] Aspen Institute. (2022). Democratizing Work: The Role, Opportunities, and Challenges of Worker Cooperatives in the US – Transcript. Retrieved Nov 1, 2025 from https://www.aspeninstitute.org/wp-content/uploads/2022/10/Democratizing-Work-The-Role-Opportunities-and-Challenges-of-Worker-Cooperatives-in-the-US-%E2%80%93-Transcript.pdf

[7]Ibid.

[8]Robinson, N. (2010). Why Buy Local? An Assessment of the Economic Advantages of Shopping at Locally Owned Businesses. Michigan State University: Center for Community and Economic Development. Retrieved Nov 1, 2025 from https://ced.msu.edu/upload/reports/why%20buy%20local.pdf

[9] Cooperative Support Center, Kent State University. (2011). Solidarity as a Business Model: A Multi-Stakeholder Cooperatives Manual. Retrieved Nov 1, 2025 from https://ccednet-rcdec.ca/resource/solidarity-business-model-multi-stakeholder-cooperatives/

[10] Chen, K. and Chen V. (2024). *Organizational Imaginaries*. Emerald Publishing: Leeds.

[11]Safri, M., Pavlovskaya, M., Healy, S., & Borowiak, C. (2025). *Solidarity Cities: Confronting Racial Capitalism*, Mapping Transformation. University of Minnesota Press.

[12] Wilson, M. and Hoyt A. (2010). Are worker-owned cooperatives the brewing pots for social capital? *Community Development*, 41:4, 417-430, DOI: 10.1080/15575330.2010.488741.23; Tak, Sandong. (2017). Cooperative Membership and Community Engagement: Findings from a Latin American Survey. CUNY Academic Works. https://academicworks.cuny.edu/hc_pubs/722; Saz-Gil, I., Bretos, I., & Diaz-Foncea, M. (2021). Cooperatives and Social Capital: A Narrative Literature Review and Directions for Future Research *Sustainability* 13. https://doi.org/10.3390/su13020534.

example, a Rochester, New York study found coops to be an especially powerful tool of "humanistic" empowerment in high-poverty areas, catalyzing broader and more effective civic participation across the community.[13] In another example, Hypertherm, an employee-owned business that manufactures cutting tools, assigns each associate with 40 hours per year of community service as a part of their democratically established "core values." [14] In 2024, this initiative resulted in delivering over 35,000 hours of global volunteer time.[15]

Similarly, a survey of the worker owners of New York's Caring Home Services coop found the following patterns:

- 57% of worker owners reported deeper connections with other workers than before membership began
- 43% volunteered in the community at higher levels
- 36% reported better connections with their friends outside the community
- 29% reported that they were more comfortable working in team situations
- 43% belong to more community organizations and clubs
- 21% contribute more money and other resources to community events
- 14% report more connections to other business leaders.[16]

> ***The Power of Employee Ownership.*** Employee ownership transforms business ownership from small groups of owners and investors and towards a model of dignified work and shared prosperity among employees and communities. As the Silver Tsunami approaches in full force, states across the country face a critical inflection point. Without swift and strategic intervention, millions of community-rooted businesses may vanish, further accelerating inequality and weakening the economic foundations of average families and local communities already under great pressure. Yet within this looming crisis lies a generational opportunity to transform business into employee-ownership, embed employee benefit as a core business model, and build a more resilient economy from the ground up.

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[13] Orr, S. and Johnson, J. (2017). Cooperative Democracy and Political-Economic Development: The Civic Potential of Worker Coops. *The Good Society*. 26: 2-3, pp. 234-254.
[14]*Hypertherm Associates supports corporate social responsibility*. (n.d.). Hypertherm Associates. Retrieved July 15, 2025, from https://www.hyperthermassociates.com/corporate-social-responsibility/
[15]Hypertherm Associates. (2025). Corporate Social Responsibility. www.hyperthermassociates.com/corporate-social-responsibility/community/
[16] Wilson and Hoyt, op. cit.

2.2 Employee Ownership Models: Coops, ESOPs, and EOTs

Employee ownership is a tested strategy enhancing economic equity and local community resiliency. Conversion to employee ownership has emerged as an important "exit with purpose" strategy for retiring business owners, which helps to address the growing problem of the silver tsunami while keeping jobs in the local economy and opening pathways to wealth creation for new worker-owners.

Within the EO movement, there are three main models to advance employee ownership: Employee Stock Ownership Plans (ESOPs), Worker Cooperatives (WC), and Employee Ownership Trusts (EOTs). ESOPs, WCs, and EOTs hold common values, but there are key differences between them that makes each model better suited for particular circumstances.

EMPLOYEE OWNERSHIP MODELS

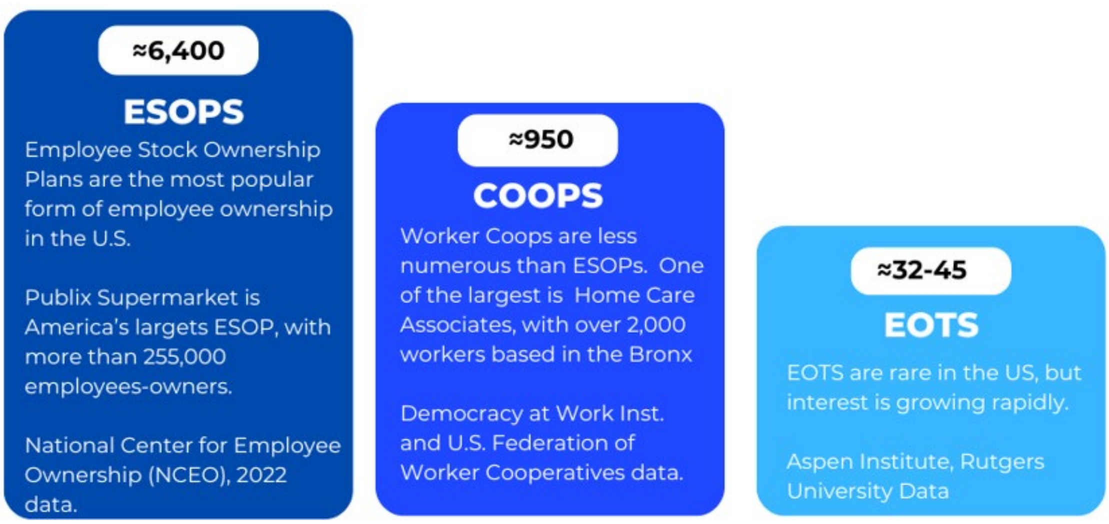
Employee ownership at the workplace comes in different forms. An ***Employee Stock Ownership Plan*** is a trust that allocates shares of the company to employees as a form of retirement plan. A ***Worker Owned Cooperative*** involves direct democratic ownership by workers, who govern the business on a one-person, one-vote basis. An ***Employee Ownership Trust*** allocates ownership to a Trust, whose trustees have a permanent obligation to seek the benefit all employees, past and future.

EMPLOYEE STOCK OWNERSHIP PLAN	WORKER OWNED COOPERATIVE	EMPLOYEE OWNERSHIP TRUST
• Retirement plan, regulated by federal law (ERISA)	• Democratic business structure where workers are direct member-owners	• A perpetual trust that holds a controlling stake in business on behalf of employees
• Employees gain ownership through company stock held in a trust	• Workers directly govern their business on a one-person, one-vote basis	• Trustees obligated to pursue employee benefit & other social purposes in Trust Deed.
• Often used in larger firms, due to regulatory complexity and costs	• Profits are shared equitably, based on labor contributed	• Employees benefit through profit-sharing & job security, but typically do not own individual shares
• Provides major federal tax advantages, including capital gains exemptions for selling owners	• Common among smaller businesses, with less complex regulatory structure than ESOPs	• Perpetuity model resists sale to outside parties

2.2.1 ESOPs

An ESOP, the most common structure for employee ownership in the US,[17] allots company stock to individual employees and holds these assets in a trust. An ESOP may own 100% of a company's stock, or just a small percentage. In an ESOP (unlike a worker coop), employees do not receive annual profit dividend distributions. The financial benefits of retirement plan stock ownership aren't enjoyed by employees in "real time"—rather an ESOP allows employees to accrue shares in the plan over time, whose value can only be realized upon an individual employee's departure from the firm, or upon the sale of the firm to a third party.[18] In cases of employee retirement or company sale, the company is obliged to repurchase the shares of the departing employee.

While employees in a worker cooperative take active roles in democratically managing their business, ESOPs are typically managed in more traditional fashion, just as other public corporations are, with employees benefitting from company stock shares, but not being involved in day-to-day ownership decisions. The corporate governance structure of an ESOP is directed primarily to secure the financial benefit of the worker-owners, without involving them in management decisions, though it is hoped that employee stock ownership will increase their business engagement and productivity, thus enhancing the profitability of the enterprise.[19] ESOPs are defined in federal law as highly regulated worker retirement plan, and they must adhere to strict federal rules requiring such things as annual business valuations, careful record-keeping, providing participants with detailed Summary Annual Reports and account statements, and adhering to specific distribution policies outlined in the ESOP plan document.



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[17] *Employee Ownership by the Numbers*. (n.d.). National Center for Employee Ownership. Retrieved July 15, 2025, from https://www.nceo.org/research/employee-ownership-by-the-numbers

[18] *What is Employee Ownership?* (n.d.). National Center for Employee Ownership. Retrieved July 15, 2025, from https://www.nceo.org/what-is-employee-ownership#worker-coops

[19] Michael, C. (2017). The Employee Ownership Trust (EOT): An ESOP Alternative. *Probate & Property*, 31(1), 39.

2.2.2 Worker Cooperatives

Worker cooperatives (WCs) are solely owned and democratically governed by the individual workers owners of an enterprise. The Board of Directors is composed of a majority of worker-owners who are elected by other worker-owners in the co-op, on a one-person, one-vote basis.[20] The elected Board is tasked with overseeing the strategic direction of the business, and with overseeing company management, which in turn oversees the worker-owners. Profits in a WC are distributed amongst the worker-owners based on their contributions to the cooperative, measured by hours worked, commonly referred to as "patronage."[21] Democratic control over working conditions is typically advanced through active workers committees and votes among worker-owners on major business decisions. Being a part of a WC implies three things: individual ownership shares in the cooperative for each worker, a share of annual profits ("patronage"), and democratic control over working processes and conditions.[22]

For WCs, securing adequate financing to launch, convert, and sustain a business is often a challenge, leading to a common reliance on either governmental or philanthropic support.[23] Worker cooperatives are also challenging to sustain amid large workforces (due to their commitment to active participation and management by all worker-owners) and if the worker-owners do not have experience and expertise in business management.

2.2.3 Employee Ownership Trusts

Although employee ownership trusts are a relatively new form of employee ownership in the U.S, they are the primary form of employee ownership in the United Kingdom.[24] Employee Ownership Trusts (EOTs) are a specific kind of "Perpetual Purpose Trust" through which a trust owns a controlling stake in a business on behalf of its employees, who benefit from the company's profits rather than by directly owning shares. EOTs can serve as a business succession strategy, allowing owners to *exit with purpose* while preserving the company's legacy by transferring ownership to a stewardship trust that is obligated to manage the enterprise in a way that secures the maximum benefits for all current and future employees.

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[20] *Worker Cooperatives*. (n.d.). Project Equity. Retrieved July 15, 2025, from https://project-equity.org/learn/types-of-employee-ownership/worker-cooperatives/
[21] Ibid.
[22] Boston Center for Community Ownership. (2013). *Worker Co-op 101* [PDF]. Democracy at Work Institute. https://institute.coop/sites/default/files/resources/361%202013_Cordeiro_CO-OP%20101.pdf
[23] Ibid.
[24] *Six Percent of UK Business Transfers Are Now to Employee Ownership Trusts*. (2024, September 25). National Center for Employee Ownership. Retrieved July 15, 2025, from https://www.nceo.org/employee-ownership-blog/six-percent-uk-business-transfers-are-now-employee-ownership-trusts

Local Ocean Seafoods is one of the emerging employee ownership trusts in the US that "exists to benefit those who prepared and served your meal through living wages and opportunities for growth [while] keeping your food dollars recirculating in the local economy."[25] Here is how Local Ocean Seafood describes how an Employee Ownership Trust works.[26]

> *"In traditional business ownership, an individual or group of individuals owns the company's stock. This gives them the power to direct the company as well as benefit from the company's profits. They may keep the profits as personal earnings, or they may reinvest in the business for continued improvement. They also may sell the company or close the company."*
>
> *"A Perpetual Purpose Trust is a type of trust which exists to advance a purpose. These types of trusts can be set up to hold the ownership of a company in perpetuity to allow it to continue to serve a purpose through its operations. Unlike traditional ownership, the trust owns the company's stock. Therefore, all profits are reinvested in the business as dictated by the trust."*
>
> *"An Employee Ownership Trust is the name used for a Perpetual Purpose Trust created for the purpose of providing ongoing benefit the employees of the company. Since the trust owns the shares of the company, strictly-speaking, this isn't "employee ownership" in the literal definition of the term but is considered a form of employee ownership given the motivations and results of the purpose. "*
>
> *-- Local Ocean Seafood, "What is Trust Ownership?"*

The Employee-Ownership Trust is governed by a Trust Agreement under state trust law, which defines its core purpose(s), its governance structure, and its profit-sharing principles. Through the EOT, employees become indirect owners of the company while the trustees or trust enforcers have an obligation to oversee the company in a way that best benefits all current and future employees. [27] Employees don't necessarily have to play an active role in selecting or advising these trustees, but an EOT's governing documents can clarify governance roles or other important roles for employees in major business decisions. For example, a Trust Agreement can establish a requirement that trustee stewardship committee members be elected by employees, or establish expectations that employees serve in worker councils or advisory committees.

As defined in the Trust Agreement, the Trustee Committee can also include mission stakeholders, such as community leaders or local officials. Trustees don't engage in day-to-day management

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[25] https://www.localocean.net/our-story.
[26] https://www.localocean.net/go-deep/trust-ownership.
[27] Harrison, E. K., & Reitman White, N. (n.d.). *Taking Care of Business: New Approaches to Business Succession Planning.* ACTEC Foundation. https://actecfoundation.org/wp-content/uploads/Lloyd-Leva-Plaine_Jan-14_2025_Chapter-3.pdf?

of the business, but they do oversee important business decisions and they may have veto powers over business decisions to help ensure that business management remains attentive to employee needs and interests in perpetuity.

EOT's are committed to a principle of "profits serving purpose," such as by defining equitable net income allocation procedures through which employees benefit from profit distributions. Steward-ownership also typically includes an "asset-lock," which requires the benefits of any business asset sale to advance the public purpose of the organization (such as by benefitting employees of the business), rather than primarily benefiting private investors.

In addition, EOT trust agreements can contain broader social purposes beyond just employee benefit. In the US, trust law usually allows founders broad latitude in defining the purposes of a trust, so long as they are don't violate public policy or too vague. This means an EOT can include language about community benefits, environmental sustainability, or other mission-driven goals as long as they don't conflict with trust-defined benefits owed to employee beneficiaries.

Financially, employees do not have to submit an equity investment to become beneficiaries of the trust—every employee is equally defined as a beneficiary just by working at the company. Though employees do not have to submit an equity investment (and gain no individualized business ownership share), most EOTs do require that the company allocate a portion of annual profits as cash payouts in a profit-sharing pool for employees. This annual profit distribution is different than in an ESOP, through which participants receive company shares that are cashed out only upon retirement or leaving the company. In an EOT, by contrast, employee-owners gain a share of profits as they are earned each year. This profit sharing dynamic is considered "naked in, naked out" in that employees don't have to make any equity contributions on the way in [as in a worker cooperative], and they don't build stock shares that are bought out when they exit [as in an ESOP]. Simply put, employee-owners don't accumulate shares in individual accounts. Rather, they receive a share of ongoing profits throughout the time of their employment.

For business owners seeking to preserve company values, ease into retirement, and best ensure their employees' welfare, EOTs offer continuity without the dissonance associated with private equity rollups, absentee corporate buyers, or abrupt closures. The transition process keeps businesses intact and deepens employee commitment by ensuring that the workplace is governed for shared benefit, not short-term gain. For such reasons, research shows that businesses using EOTs see improved worker engagement, increased productivity, and reduced wage inequality.[28]

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[28]Ibid; *The Emergence of Employee Ownership Trusts in the U.S.*, Aspen Institute Economic Opportunities Program.

Key Elements of a Perpetual Purpose Trust

Trust Agreement	The trust agreement is the governing document by which a Perpetual Purpose Trust is to be governed. It defines the beneficiaries of the trust, the purpose of the trust, and its governance.
Trust Stewardship Committee (TSC)	The TSC is responsible for governing the business in accordance with the purpose laid out in the trust agreement. TSC members are legally responsible for executing the mission of the trust. The Trust Agreement specifies how his TSC is established, such as through a vote by eligible employees of the business.
Trust Enforcer	The trust enforcer serves as an independent arbitrator for grievances brought by stakeholders against the Trust Stewardship Committee. In such situations, the trust enforcer would be responsible for deciding whether or not the TSC has violated the terms of the trust agreement or fallen short of its responsibilities.
Corporate Trustee	Corporate trustees are a generic element of many trust structures. A corporate trustee has no substantial decision making authority, but has a role to ensure business assets are held, managed and distributed in ways to benefit the business and aligned with the Trust purpose.

We converted to an EOT in 2020…The primary objectives that my business partner and I had when we were looking at succession planning, we wanted to make sure that the company would never be sold, that the company would always share at least 25% of the profits with the employees, and that we set a stage for decades of prosperity and growth, so that we could continue to create jobs here in our community."

-- Rick Plympton, CEO of Optimax, a precision-optics Employee Ownership Trust

Adapted from: "Understanding the Perpetual Purpose Trust."
https://www.purpose-us.com/writing/whats-a-perpetual-purpose-trust
Quote Source: www.aspeninstitute.org/wp-content/uploads/2023/09/EOP-OIA-Transcript-Sustaining-Ownership.pdf

2.3 The Employee Ownership Trust vs. Worker Cooperatives

Employee Ownership Trusts are different from worker cooperatives in several important ways. First, worker cooperatives are owned by individual workers themselves (rather than by a trust), and worker coops typically require some sort of equity buy-in from the worker-owners of a business. Employees each become an owner of the coop and acquire individual ownership shares in exchange for their equity buy-in and according to the level of their ongoing work with the business. EOT's, on the other hand, do not require individual worker equity buy-ins, as individual workers are not the "owners" of the business—rather the trust itself owns the business, as a corporate entity, apart and distinct from any individual worker. Employees don't need to buy shares, take on debt, or manage complex retirement-plan compliance.

Second, and related to the principle that worker cooperatives are directly owned by workers, worker cooperatives typically feature the active engagement of employees in governing the workplace and voting on important work decisions. Workers themselves serve as a collective board of directors for the organization and are expected to have high levels of active engagement in workplace affairs. Worker cooperatives are governed through democratic procedures, in which every worker's vote is equal and workers collectively discuss and decide on important business decisions. EOT's, on the other hand, are less of a direct democracy and more of a representative system in which employees' interests are represented and advanced by trustees. Though these trustees may be elected by workers, the EOT system is not built on an expectation that most workers are highly engaged in workplace management and decision-making. Rather the EOT system depends on trustees to provide high-level oversight of the business, while employee benefits (such as a share of annual profit distributions) are distributed equally to all employees and without an expectation of active engagement of workers in managing business affairs.

Because of its representative/trustee nature, an EOT system may be more appropriate than worker cooperatives in larger workplaces with many employees, or in situations where employees as a whole wish to sustain a mission-driven business but aren't desirous or capable of taking on the burdens of regular, active supervision of all aspects of the workplace.

> *"Employee ownership through an employee ownership trust provides us with a stable and equitable structure that has the flexibility to scale and adapt to whatever the future brings…It means we can continue to grow without the involvement of external shareholders so we can maintain full control over the direction of the business and our creative culture."*
>
> --Cambridge Design Partnership EOT

Quote source: https://res.cloudinary.com/fieldfisher/image/upload/v1574346756/PDF-Files/PDFs%20from%20old%20website/eo-case-studies-eo-day-2018_gfie8q8.pdf

A third difference between worker coops and EOTs is that member owners of a worker cooperative could vote at any time to sell their company to outside investors or otherwise change the social mission of their employee-owned company. Similarly, ESOP's are governed by trustees who have an obligation to sell the business if an offer arrives with strong pecuniary benefits to ESOP shareholders. For example, New Belgium Brewery was the first and largest craft brewery to become an ESOP in the USA in 2000, but sold out entirely to a private for-profit company in 2019, in order to maximize short-term pecuniary interests of its employee owners.[29] Such a sale or transformation (sometimes called "demutualization") is a common occurrence with profitable employee-owned cooperatives and ESOPs.

But an employee ownership trust (as a *perpetual purpose trust*) can be established with a perpetual goal of employee benefit (now and into the future)—a goal that cannot be changed simply because some existing employees may find it profitable to sell or transform the company. For this reason, an EOT (or Perpetual Purpose Trust) may be an attractive strategy to maintain the ongoing legacy and social purpose of a business and ensure the perpetuity of employee ownership. Because individual employees do not own shares of the business in an EOT, they would be unable to maximize individual profits by selling the business, and do not automatically have an investor's right to an annual share of profit distributions (though such profit-sharing might be embedded into a Trust's governing documents).

2.3 The Employee Ownership Trust (EOTs) vs. ESOPs

While EOTs are a very flexible business model, Employee Stock Ownership Plans (ESOPs) are a much more complicated and tightly regulated model of employee ownership. As a federally-recognized retirement plan governed by the Employee Retirement Income Security Act (ERISA), the ESOP model comes with significant regulatory and oversight requirements, including complex fiduciary obligations, annual valuations, repurchase obligations, and tight regulatory scrutiny by the Department of Labor and the IRS.[30] As described by the National Center for Employee Ownership, *"Both EOTs and ESOPs involve trusts that operate in the interests of employees, but the differences between them are large. Some of the crucial differences are that ESOPs are created by Congress, which results both in significant tax incentives and in substantial regulatory requirements and a high degree of fiduciary responsibility for the proper operation of the ESOP. ESOPs must follow rules about which employees participate in the plan and on what terms, while EOTs offer great flexibility."*[31]

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[29] National Center for Employee Ownership. (n.d.). "The End of Employee Ownership at New Belgium Brewing." Retrieved October 26, 2025, from https://www.nceo.org/article/end-employee-ownership-new-belgium-brewing
[30] *Employee Ownership Trusts vs. (n.d.). ESOP*. Retrieved July 17, 2025, from https://www.esop.org/articles/esops-vs-employee-ownership-trusts-business-transition.php
[31] National Center for Employee Ownership. (n.d.) "An Introduction to Employee Ownership Trusts." Retrieved October 26,2025, from https://www.nceo.org/article/introduction-employee-ownership-trusts

These substantial regulatory requirements mean that establishing an ESOP is much more complicated and expensive than establishing an EOT, including the need to rely on multiple attorneys, tax advisors, and appraisers. Financing possibilities for EOTs are also more flexible and adaptable than highly regulated ESOPs. For example, financing the transition can involve retained earnings, social impact loans, or issuing non-voting preferred stock to retiring founders or investors, enabling them to be compensated without ceding control to these non-employee financiers.[32] Many EOTs rely on seller financing, where the exiting owner is repaid over time through future company profits. For example, Optimax Systems (an EOT in New York) financed its transition for over 15 years, with 25 cents on each dollar of profits going towards the purchase of shares from the original owner, without having to rely on outside financing.[33] Community Development Financial Institutions (CDFIs) and social impact funds can also support these transitions without requiring personal guarantees. The less complicated regulatory structure means that EOTs can typically be established for $50,000 to $100,000, ESOPs typically cost to $150,000 to $500,000 to launch. [34]

In terms of regulatory complexity, establishing a Employee Ownership Trust is much simpler than launching an ESOP, with the key steps being defining a trust agreement, establishing a governance structure, and filing the trust documents with state officials. The process can be completed quickly and there are few federal rules requiring oversight of the business valuation and purchase price or strictly regulating the process of annual profit distributions. In fact, there is substantial flexibility in such things as how the purpose of the employee ownership trust is defined, how steward committee members are appointed, how employees and other stakeholders are involved in governance, and how profit-sharing is structured.

In comparison, ESOPs classification as a federally regulated retirement plan means that ESOPs need to dedicate substantial resources towards planning, monitoring, managing, and predicting their employees' assets over the long run. For example, an ESOP needs to be able to forecast the number of employees they expect to retire the following year, how much it will cost to repurchase those shares, and where that money will come from. Because an EOT is not a federally regulated retirement plan, many of the complexities of an ESOP simply don’t apply. Multiple attorneys are not required to ensure adherence to complicated US tax law and regulations governing retirement plans. An initial business sale price does not require strict adherence to federal oversight rules determining fair market price–rather sale and conversion to an EOT only

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[32] Common Trust. (n.d.). *How the Money Works in an Employee Ownership Trust (EOT)*. Common Trust. https://www.common-trust.com/blog/how-the-money-works-in-an-eot-transaction

[33] *The Emergence of Employee Ownership Trusts in the U.S.*, Aspen Institute Economic Opportunities Program

[34] Broughton, A., et. al. (2024) *Using an Employee-Ownership Trust for Business Transition*. National Center for Employee Ownership: Oakland.

requires the business-owning seller and the EOT purchaser to agree between themselves on the purchase price. Subsequent annual independent business valuations are not required.

Moreover, because ESOP trustees have a legal obligation to maximize employees' retirement income, they have to conduct independent business valuations every year and may be compelled to sell the business to the highest bidder, even if such a sale contradicts the founder's values or undermines long-term employee ownership.[35] These circumstances can make it more difficult for an ESOP to pursue the same kinds of long-term positive social impacts for future employees that can be achieved by establishing an EOT.

For steward-owned companies like an EOT, immediate profits and benefits to current owners are not viewed as the primary goal, but are means by which the EOT's broader and *perpetual* purposes can be furthered. By existing in perpetuity, the company is held by the trust indefinitely and can never be sold to an absentee buyer simply to provide benefits to current owners. This perpetual purpose of broadly defined "employee benefit" provides a layer of stability for current and future employees, community members, and local economies in the face of increasingly migrant businesses and short-term profit taking described earlier in this report.

There are also differences between ESOPs and EOTs in how employee benefits are distributed. Due to the structure of an ESOP, employees only gain their non-wage benefits through stock allocations, which are bought out when they retire or leave the company. Under an EOT, however, employees are "naked in, naked out",[36] meaning that they don't contribute cash on their way in and don't get bought out upon their departure. Instead, they receive a portion of the operating profits of the business during the entire duration of their employment. What's more, whereas an ESOP plan managers must focus only on maximizing retirement benefits to plan participants, EOT's have greater flexibility in determining how the annual profit-sharing system will be structured as long as the general goal of "employee benefit" is being met, and that goal can be defined as something more than just pecuniary benefit.[37] For example, while a portion of EOT profits will likely be directed into direct annual patronage payouts and 401(k) retirement benefits, a sizable portion of profits can also include investment in community projects, charitable donations, or even supporting other employee owned businesses in the community, depending on how the EOT Trust document is structured.

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[35]Michael, C. (n.d.). *The British Are Coming: ESOPs And Perpetual Trusts*. EOT Advisors. Retrieved July 17, 2025, from https://eotadvisors.com/the-british-are-coming-esops-and-perpetual-trusts-employee-ownership-trust-eot
[36]Michael, C. (n.d.). *Employee Ownership Trusts: A New Model of Employee Ownership?* EOT Advisors. https://eotadvisors.com/employee-ownership-trusts-eot-a-new-model-of-employee-ownership
[37] Ibid., *Employee Ownership Trusts (EOTs) vs. ESOPs: Which is right for you?* Retrieved July 8, 2025, from https://www.esop.org/articles/esops-vs-employee-ownership-trusts-business-transition.php

	Worker Cooperatives	ESOP	EOT
Regulated by State or Federal Law?	State	Federal	State
Complexity	Relatively simple structure, flexible articles of incorporation allowed, minimal annual reporting to government officials and no "outside" trustee .	Requires compliance with strict federal ERISA rules, including annual valuations, repurchase obligations, and fiduciary obligations to maximize retirement benefits of employees.	Less complex than ESOPs: no ERISA compliance needed, Governance and trust structure still require legal design and regular trustee oversight.
Ownership	Employees are direct owners	Trust holds stock behalf of employees	A perpetual trust owns the company; no shares are held by individual owners.
Governance	"One person, one vote" democratic control; board elected by worker-members; Worker-owners often deeply engaged in business decisions and management	Founder/Seller often selects Initial Trustee who oversees business adherence to Trust deed; Over time Trustee Board selects Trustee; employees have limited voting rights. Employees are typically passive beneficiaries	Varies: EOT board can includes employee representation; trust deeds often require employee consultation but do not mandate direct voting control. Most employees not engaged in direct management .
Profit Distribution	Worker-Owners Decide: e.g., patronage-based payouts to workers or reinvest in business	Shares in company gained over time and share value realized upon employee retirement or departure from company	EOT Trustees decide, in best interests of workers: e.g., patronage payouts to workers or reinvest in business
Federal Tax Status	In certain sales, business owner is eligible for a Section 1042 "rollover" deferment of capital gains tax if a business is sold to a worker cooperative.	Multiple tax benefits, including: capital gains tax exemptions, income tax exemptions, tax-free loan interest repayments, dividend deductions, and IRA rollovers.	Very limited benefits in federal tax law.
Trustee Role	Not applicable	Fiduciary duty to maximize financial benefit for current ESOP shareholders, which can result in "demutualization" and sale of company to a traditional private buyer.	Holds company in perpetuity. Company cannot be demutualized or sold to non-employee ownership structure. Trustee required to consider employee benefit, and other purposes embedded in trust deed.

3
The Role of Public Policy in Nurturing EOT Growth

As the US is facing a wave of retirements among business owners, EOTs are emerging as a nimble, values-aligned model better suited than ESOPs to the realities of many small businesses and the communities they sustain. EOTs can be anchored in local communities for perpetuity, they are relatively easy to structure, they can pursue social purposes beyond maximizing retirement gains for current employees, and they don't have the intensive ownership and management demands of a directly owned worker cooperative or the legal and financial complexities of an ESOP.

Though EOTs are a flexible and promising model, ESOPs and Worker Cooperatives remain the most established form of employee ownership in the US, with over 6,500 ESOPs and 750 worker cooperatives nationally – with EOTs at an estimated total of just 46.[1] In Colorado, there are more than 230 EO companies[2] – 129 registered ESOPs representing more than 71,000 participants, roughly 42 WCs, 58 hybrid structures, and only one established EOT.[3] This dearth of EOTs is partly a result of public policy: US jurisdictions simply haven't embraced EOTs in law as extensively as they have ESOPs and (to lesser extent) worker cooperatives. But there are nearby models, such as in the United Kingdom, of how things could be different.

3.1 Public Policy as EOT Catalyst: Lessons from the UK

Much of the historic dearth of EOTs in the U.S. is due to thin public policy support. In the United Kingdom, by contrast, EOTs are the dominant form of employee ownership, and this result provides a case study in how policy design can unlock broad adoption of a workplace innovation like EOTs. When United Kingdom leaders passed the EOT-supporting Finance Act of 2014, two key policy levers drove rapid uptake of EOTs there.

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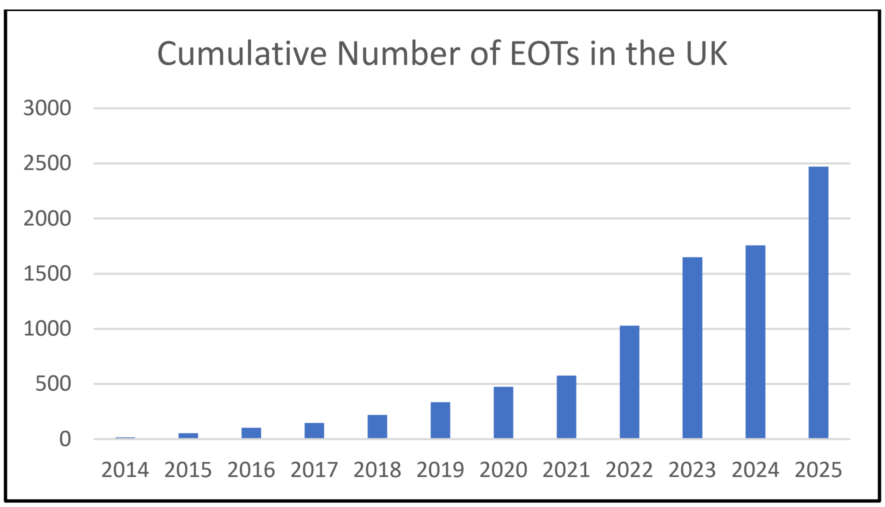
[1] Broughton, Anne-Claire, Joseph Blasi, Zoe Schlag, Derek Razo, and Mark Hand. 2022. "*Employee Ownership Trusts and Perpetual Purpose Trusts in the United States.*" Harvard Dataverse. https://doi.org/doi:10.7910/DVN/EYGHCW; Democracy at Work Institute. (2023). *State of the sector: 2023 worker cooperative state of the sector report*. https://institute.coop/resources/state-sector-2023

[2] Tabachnik, S. (2024). Colorado leads growing movement toward employee-owned businesses. *The Denver Post*. https://www.denverpost.com/2024/12/19/employee-owned-businesses-colorado/

[3] National Center for Employee Ownership. (n.d.). *Employee ownership by the numbers*. Retrieved July 1, 2025, from https://www.nceo.org/research/employee-ownership-by-the-numbers

1. **Tax Relief**
   - **Capital Gains Tax Relief:** The Finance Act of 2014 provided that business owners selling a controlling stake (51% or more) to an EOT pay **no capital gains tax** on the sale. This often made selling to employees more financially attractive than selling to private equity or a competitor.
   - **Income Tax Relief:** Employees in EOT-owned businesses can receive annual tax-free bonuses (up to a set limit). This provision builds worker support and ensures they directly benefit from ownership.
2. **Clear Legal Framework**
   - The Finance Act of 2014 codified the rules into a nationwide framework, clarifying what qualifies as an EOT how trustees operate, and protections against misuse.
   - This legal clarity reassured business owners, lawyers, lenders, and financial advisors that the model was legitimate and low-risk.

The results have been astounding. In 2014, only a handful of UK firms were EOTs. By 2024, over 1,600 companies had transitioned, with adoption accelerating year over year. In the first 6 months of 2024, another 1,756 UK companies (6% of all UK business transfers) converted to EOT ownership, affecting 124,000 employees.[4] This UK experience shows how supportive public policy can leverage the rapid growth of EOTs, opening new pathways for employee ownership.



[4] Sources for chart data: https://goeo.uk/blog/how-many-employee-ownership-trusts-are-there-in-the-uk; https://employeeownership.co.uk/common/Uploaded%20files/eoa%20manifesto.pdf; https://www.nceo.org/employee-ownership-blog/six-percent-uk-business-transfers-are-now-employee-ownership-trusts#; https://www.osborneclarke.com/news/employee-ownership-trusts-soar-shareholders-seek-maximise-tax-benefits

CELEBRATING THE IMPACT OF EOT LEGISLATION:

The FieldFisher Firm celebrates how the 2014 Finance Act in the United Kingdom resulted in EOT's growing from 140 to 1,650 in ten years.

https://www.fieldfisher.com/en/insights/celebrating-10-years-of-empowering-employees-the-impact-of-eot-legislation

3.2 U.S. Innovations in Purpose Trusts and Perpetual Stewardship

USA employee ownership advocates are learning from UK's EOT policy experience. Though not as supportive as UK policy, US policy has also been changing in recent years, seeking to foster the growth of EOTs.[5] Though ESOPs have long dominated the US employee-ownership landscape, EOTs have become more viable in the U.S. thanks to recent developments in state trust law, including the adoption of policy allowing for Perpetual Trusts, Directed Trusts, Trust Protectors, and Noncharitable Purpose Trusts.[6] These tools make it possible to create flexible and mission-aligned ownership vehicles, modeled after successful examples like the John Lewis Partnership in the UK.[7]

Much of this policy innovation has been guided by The Uniform Trust Code (UTC)-- a comprehensive model law created by the Uniform Law Commission (ULC) in 2000 to guide trust law across the United States, providing standardized rules to govern the creation and administration of trusts. While not binding, the UTC serves as a blueprint for states seeking to align state laws with established principles of predictable and consistent Trust laws.

The UTC does not specifically authorize the EOT model but it provides the legal framework that has enabled EOT growth in the United States. Before the UTC, trust law did not widely recognize *noncharitable purpose trusts*, making it difficult to establish a trust for the permanent purpose of employee ownership. With the UTC's recognition of such *noncharitable* trusts, and subsequent

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[5] Maxwell Johnson, *The Emergence of Employee Ownership Trusts in the U.S.*, Aspen Institute Economic Opportunities Program (Nov. 30, 2023), https://www.aspeninstitute.org/blog-posts/the-emergence-of-employee-ownership-trusts-in-the-us/

[6] Gary, S. N. (2023). The Changing Landscape of Business Success; How and Why Purpose Trusts Matter. *Ohio State Business Law Journal*, 18(1).

[7] John Lewis Partnership - Home. Retrieved July 17, 2025, from https://www.johnlewispartnership.co.uk/

adoption of state perpetual trust laws, it became possible to create a non-charitable legal vehicle that perpetually holds company shares for the benefit of employees.

The UTC provides suggested guidelines for the creation of such purpose trusts in UTC section 409.[8] This section defines how *Purpose* Trusts (such as an EOT), as opposed to common law trusts, have no ascertainable beneficiary that has standing to enforce the fiduciary obligations of the trustee. Purpose Trusts are distinct from common law trusts because they exist to serve a *specific purpose* as opposed to benefitting *identifiable individual persons*.[9] Historically, Purpose Trusts were limited by common law, often requiring identifiable beneficiaries for enforceability, a duration limit (the Rule Against Perpetuities), and the potential for a court to reduce the trust's assets if deemed excessive for its non-charitable purpose. [10]

Over time, however, Uniform Trust Code (UTC) sections 408 and 409 began to validate some *perpetual non-charitable purpose trusts* for specific uses like animal care or cemetery plot maintenance. These were often seen as "honorary trusts" where a named enforcer could oversee the perpetual purpose, even without a specific identifiable beneficiary.[11] Purpose Trusts rely on an appointed enforcer or protector to hold trustees accountable to the trust's stated mission. Stewardship ownership through a purpose trust preserves the founder's mission and gives control of the business to trusted advisors or "stewards" who might only have a limited economic interest in the business and are directed to protect the interests of trust-defined "stakeholders" – employees, customers, suppliers, investors, the community, and the environment – rather than maximizing profit and value extraction.[12] The EOT structure in the United States uses a Perpetual Purpose Trust to establish an EOT – in other words, Perpetual Purpose Trusts are the vehicle that make varying types of mission-driven, trust held businesses possible (Stewardship, EOT, etc.) .

Enabled by statute in most U.S. states (typically modeled on the UTC), perpetual purpose trusts vehicle have been gaining enhanced attention following high profile cases like Patagonia's 2022 transition to "steward ownership" through a Purpose Trust with a mission to preserve environmental health.[13] Though Patagonia is not an EOT, the same "perpetual purpose" model

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[8] UNIF. TR. CODE § 408 (UNIF. L. COMM'N 2000)

[9] Harrison, E. K. (2024, May 20). *Purpose Trusts and Steward Ownership*. Tax Notes. Retrieved July 14, 2025, from https://www.taxnotes.com/special-reports/trusts-and-estates-taxation/purpose-trusts-and-steward-ownership/2024/05/17/7jhjq#7jhjq-0000001

[10] Gary, Susan N., The Oregon Stewardship Trust: A New Type of Purpose Trust that Enables Steward-Ownership of a Business (July 25, 2019). *University of Cincinnati Law Review*, Forthcoming, Available at SSRN: https://ssrn.com/abstract=3426845

[11] Ibid

[12] Ibid.

[13] Chouinard, Y. (2022, September 14). *Yvon Chouinard Donates Patagonia to Fight Climate Crisis*. Patagonia. Retrieved August 8, 2025, from https://www.patagonia.com/ownership/

has been increasingly picked up as a way to use UTC-authorized trust structures to orient businesses towards benefitting all future and present employees, rather than seeking short-term profit maximization, including selling a business to the highest bidder.[14]

If a state's trust code exempts non-charitable purpose trusts from the Rule Against Perpetuities or has its own designated statute allowing EOTs to exist indefinitely, business owners can use perpetual purpose trusts as a vehicle to establish an Employee Ownership Trust (EOT). For example, Oregon is the first state in the U.S. which has recently passed a new statute specifically defining a Stewardship Trust like EOTs aligned with this purpose trust framework.[15] Other states continue to allow EOT formation under standard perpetual purpose trust law, without specifically identifying EOTs as a legal form. Under perpetual purpose trust law, these EOTs are typically set up by transferring the company's voting shares to the trust, which is managed by a trustee and often guided by a stewardship or trust protector committee. As this model has become more familiar and common, the number of established EOTs in the US has almost tripled since 2020.

3.3 State-Level EOT Policy Patchwork and Possible Federal Contributions

Though US Trust Law has evolved to allow the innovation of an EOT in some states, uptake has been slow and inconsistent across the nation. The reason is simple: in the U.S., trusts are creatures of state law, not federal law. Each state has its own trust law, and most states' trust statutes focus on traditional purposes, such as estate planning, charitable trusts, investment trusts, etc. Only Oregon explicitly recognizes an EOT-arrangement in its *perpetual trust law*. However, a few states—such as Washington and Colorado—have passed *employee ownerships laws* that explicitly include "Employee Ownership Trusts" as among the forms of employee ownership that are allowed and supported in the state.[16] This recognition of EOTs in employee ownership law has facilitated the creative pursuit of EOTs in those states as an acceptable form of perpetual purpose trusts, even though trust law itself doesn't specifically recognize EOTs.

Because state laws vary, and most are based on legal definitions of trusts that don't include employee ownership trusts, there are several gaps in state laws that frustrate the growth of EOTs. For example:

- **Beneficiary definition:** Some state laws require beneficiaries to be clearly identifiable individuals. An EOT, however, usually benefits a changing class of

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[14] Ibid.

[15] Ibid.

[16] Washington's law is SB 5096 ("An act relating to expanding employee ownership"). Colorado's HB 24-1157 enacted an employee ownership tax credit program that included employee ownership trusts as eligible for certain tax credits. Also, Colorado's HB25-1021 strengthened support for a variety of employee ownership models, including EOTs.

"employees," past and future, which complicates compliance with the "identifiable beneficiaries" rule.

- **Perpetuity rules:** States vary on whether a trust can last indefinitely. Some states still have "rule against perpetuities" restrictions, which complicates the idea of a permanent employee ownership trust.

- **Trustee duties:** Trustees typically must act in the best financial interests of beneficiaries. With an EOT, Trust Agreements often set goals that balance financial returns with broader goals like employee empowerment, local economic stability, or environmental protection—something not all state trust codes anticipate or clearly allow.

These limitations and complications in state policies point to the benefits of a comprehensive federal Employee Ownership Trust law, such as the UK Finance Act of 2014. As described earlier, this UK Finance Act created two powerful policy levers to expand EOTs nationwide.

- **A clear national legal framework.** The UK law defined EOTs and carved room for their recognition nationwide. This removed local obstacles to recognition of EOTs and facilitated certainty among business owners, employees, lawyers, lenders, and other stakeholders.

- **Favorable national tax treatment.** The UK law offered full relief from capital gains taxes for businesses converting to an employee ownership trust, and also gave income tax relief to the employees of that trust.

If a similar, standardized pathway to EOTs were opened up in US federal law, together with federal tax benefits, we would almost certainly see a burst in EOT conversions just as the UK did. In recent years, the US Congress has acknowledged the legitimacy of employee ownership models as a viable alternative form of business organization, but has not adequately provided support to EOTs specifically as a part of the employee ownership movement.

For example, current federal policy heavily incentivizes ESOPs through favorable tax structures. The Small Business Jobs Protection Act (1996) allowed ESOP trusts to become owners of S corporations, with the assumption that the ESOP trust would pay business income tax on its pro-rata share of profits. But the following year, the ESOP Taxpayer Relief Act (1997) made ESOPs tax-exempt by repealing the requirement that ESOP owners of S corporations had to pay income taxes on corporate income passed through to the ESOP. This rule allowed S Corporations to pass through untaxed portions of their business income to ESOPs, while also allowing tax-exempt

ESOPs to avoid taxes on this income allocation. Unfortunately, federal law does not grant EOTs the same kind of tax advantages.

To address this policy gap, Congress could consider pursuing federal parity in tax treatment for EOTs as well as ESOPs. For example:

- Include EOTs as a qualifying entity under IRC§ 501(a), allowing them to be exempt from federal income taxes and granting them the same tax advantage as an ESOP.

- Among WCs and ESOPs, include EOTs on the list of eligible employee organizations that qualify for capital gains tax deferrals under IRC § 1042.

- Support an amendment to IRC §1361 to allow EOTs to be eligible shareholders of S corporations. This would grant EOT-owned S corps the same pass-through tax benefits that ESOPs enjoy, enabling broader adoption of the model and easing conversions from ESOPs to EOTs.

Though clarifying trust law and providing EOT tax benefits might not be particularly contentious policy innovations, they will likely prove difficult to achieve in a time of fractious US politics and rare bipartisan policy innovations. In addition, such policy changes would require going against the grain of traditional state-level control over trust law. Therefore, advocates of EOT growth in the US landscape must look to state policy innovations first and foremost.

4
State Level EOT Policy Innovation

4.1 State-Level Policy Landscape

Though state-level innovation is the most likely path to grow supportive EOT policy nationwide, the current reality is that most states remain silent on the topic of EOTs. Here are key elements of the national landscape of state-level EOT law.

- **General trust law** (in almost every state) allows the creation of private trusts, but traditional rules (like the "beneficiary principle" and limits on non-charitable purpose trusts) make pure employee-benefit trusts ambiguous or risky without specific enabling language.

- **Only Oregon** has a clear statutory pathway via its EOT-enabling Stewardship Trust statute (ORS 130.193), which explicitly authorizes trusts formed for a business purpose — directly usable for an EOT.

- A few states **(Colorado, Washington, California)** haven't amended trust law itself, but instead recognize employee ownership trusts by name in tax-credit statutes or program definitions, so EOTs are eligible for state incentives.

- **Most other states**: EOTs can be created under general trust law, but there's no statutory clarity or program recognition — meaning lawyers often adapt existing trust structures (like Delaware purpose trusts) to hold the company, with less certainty around long-term enforceability.

Although State legislatures are experimenting, trust-code amendments (like Oregon's, that explicitly recognize EOTs) are rare so far. The policy momentum is toward mentions of EOTs in state employee ownership support programs, or making EOTs eligible for certain tax credits, but without clearly recognizing this legal formation in amended state trust law. EOTs are poised for adoption and growth across the nation, as in the UK, but the movement will likely remain stifled until a much wider range of states clearly define the EOT structure in trust law and pass additional supportive policies, along the UK model.

FOR A MORE COMPREHENSIVE AND DETAILED SUMMARY OF STATE-LEVEL EMPLOYEE OWNERSHIP LEGISLATION, SEE APPENDIX

STATE LEVEL EOT POLICY LANDSCAPE

TRUST-CODE ENABLING LANGUAGE	Only **Oregon** (ORS §130.19) has amended state trust law to explicitly allow creation of a non-charitable "stewardship trust" for business purposes without a definite beneficiary, and permits the trust to hold ownership interests in corporations, LLCs, co-ops, etc. This is the clearest state-level trust law written to enable perpetual stewardship-style EOTs. **Colorado**'s Revised Statutes (CRS §39-22-542) include an statutory definition of employee ownership trusts, but the state has not expressly amended its state trust code to recognize EOTs.
TAX CREDITS AND FINANCIAL ASSISTANCE	**Colorado** Legislation provides several tax incentives for EOT conversion. – HB 23-1081 allows tax credits up to $40,000 for costs incurred in EOT conversion, or $25,000 for costs of a business expanding its employee ownership percentage. – HB 24-1157 creates income tax credit up to $50,000 to cover 50% of costs in a new EOT conversion. – HB 25-1021 creates an income tax subtraction for state capital gains that are realized by a business owner selling to an EOT. **Washington** statute (RCW 82.04.4488) establishes tax credits for conversion costs when a business converts to a worker-owned co-op, employee ownership trust, or ESOP. The credits are dependent on unpredictable state funding support, which ended in 2025.
STATE-SUPPORTED TECHNICAL ASSISTANCE HUBS	Several states have established state offices or supported non-state education and technical assistance hubs for businesses considering EOT conversion. – **Colorado** has established an official Employee Ownership Commission, and offers EO technical assistance and grant programs through its Office of Economic Development and International Trade. State support is also provided to non-profit technical assistance hubs like the Colorado Center for Community Wealth Building and the Rocky Mountain Employee Ownership Center. – **California**'s Employee Ownership Act created a state-funded Employee Ownership Hub, managed by the California Office of the Small Business Advocate – **Massachusetts** offers a state-funded Center for Employee Ownership. – **Michigan**'s state-funded Economic Development Corporation recently partnered with the Michigan Employee Ownership Center to administer a $500,000 pilot program providing technical assistance to employee ownership conversion efforts. – **Washington** maintains an Employee Ownership Commision and created a state employee ownership office within the Dept. of Commerce.

This list is not exhaustive, but covers some of the most important EOT-supportive public policy that exists nationwide. Oveall, EOT policy remains thin or non-existent in most states.

4.2 A Colorado Employee Ownership Policy Backgrounder

As a national state-level leader in supporting employee ownership, Colorado provides a good example of how some states have been increasingly embracing EOTs, and of what kinds of state-level innovations could help further accelerate the movement. Regarding employee ownership in general, Colorado has already established a robust policy framework that supports Employee Ownership (EO) transitions. As a result, the composition of Colorado workplace organizations has shifted, with more and more EO businesses appearing every year.[1] However, most of Colorado's statutes and state leadership initiatives are geared towards promoting Employee Stock Ownership Plans (ESOPs) and Worker Cooperatives, leaving the EOT movement somewhat underdeveloped. The following analysis traces the evolution of Colorado's EO policy landscape, highlights the most recent developments, and identifies policy innovations that would grow the EOT movement, in Colorado and elsewhere.

"Cooperative" business structures (such as worker cooperatives) have been recognized in Colorado law for decades. **Article 55** of the Colorado Revised Statutes (CRS) outlines the rules and regulations for the formation, operation, and dissolution of cooperative associations in Colorado. This article has historically covered housing and utility cooperatives.[2] **Article 56** expanded upon this foundation, governing a broader set of cooperative forms, including worker cooperatives, stock or membership cooperatives, and renewable energy cooperatives.[3] Article 56 also offered liability protections for members or workers cooperatives and other coops, and reinforced cooperative principles such as defining rules governing patronage returns, limited dividends, and democratic governance.

In an more detailed recognition of worker owned cooperatives, **Colorado's Uniform Limited Cooperative Association Act (UCLAA)**, adopted in 2011 and codified under C.R.S Article 58, provided a new organizational structure for establishing worker cooperatives as unincorporated limited cooperative associations, or "LCAs".[4] This act allows cooperatives structured as an LCA to admit outside investors as members with limited voting rights and participation in financial gain or losses.[5] This policy blends traditional cooperative principles of democratic control and member use with modern financing by having both "patron members" (investors that utilize the

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[1] Wilson, S., Davis, R., Miller, F., & Fennell, J. (2024, September 19). *Colorado grows friendlier to companies switching to employee-owned mode*l. Colorado Newsline. Retrieved July 21, 2025, from https://coloradonewsline.com/2024/09/19/colorado-grows-friendlier-to-companies-switching-to-employee-owned-model/

[2] Colorado ASSOCIATIONS Laws - 2024 Colorado Revised Statutes Title 7, - ASSOCIATIONS :: 2024 Colorado Revised Statutes :: U.S. Codes and Statutes :: U.S. Law. (n.d.). Justia Law. Retrieved July 15, 2025, from https://law.justia.com/codes/colorado/title-7/associations/

[3] Ibid, see CRS Article 58.

[4] *The Colorado Uniform Limited Cooperative Association Act (ULCAA)*. (2012, April 2). Colorado Secretary of State. Retrieved July 14, 2025, from https://www.sos.state.co.us/pubs/business/news/2012/20120402_ULCAA_Dean.html

[5] Ibid.

services of the cooperative, such as worker-owners) and “investor members” (non-users or non-workers who contribute financially to the cooperative but may also have voting rights). This structure allows worker cooperatives structured as LCAs greater access to various sources of funding without compromising the values of workplace democracy.

HB17-1214 (“Encourage Employee Ownership of Existing Small Businesses”), passed in 2017, created Colorado’s first revolving loan program to finance conversions to employee-owned enterprises. The bill required Colorado’s Office of Economic Development and International Trade (OEDIT) to publish eligibility guidelines and loan criteria and permitted contracts with nonprofits and the Colorado Housing and Finance Authority to administer loans. It also mandated collaboration between OEDIT and nonprofit organizations to provide technical assistance, outreach, and public education on employee ownership.

In 2019, **Governor Polis’ Executive Order D 2019 005** expanded the state’s commitment to employee ownership conversion by establishing the Commission on Employee Ownership, tasked with identifying barriers to employee-ownership and recommending strategies for broadening its reach across the state. At the time, Colorado was one of the first states to create such an entity, making clear the political will of state leaders to pioneer the field of employee ownership.

In 2021, **HB21-1241** amended HB17-1214’s loan program (from 2017) by changing its statutory eligibility requirements and named OEDIT as the party responsible for establishing eligibility and loan criteria for employee ownership conversions. As a part of the loan criteria, HB21-1241 limited eligible businesses to those with under $50 million in annual revenue and created a minimum number of employees to be offered ownership before a business could legally qualify as “employee-owned.”[6]

A second bill in 2021 **(HB 21-1311)** introduced a temporary income tax credit to help defray the cost of professional services incurred during new EO conversions (less than 7 years old). It offered a credit for up to 50% of the conversion costs, capped at $25,000, for converting to a worker-owned cooperative or an EOT, and a credit up to $100,000 for conversion to an ESOP. This move made up to $10 million in tax credits available annually. Importantly, this bill marked the first time in Colorado employee ownership legislation where EOTs were defined and specifically supported in state statute. In the bill, EOTs are defined as a trust that holds at least 20% of a qualified business's fully diluted securities and that is obligated to seek the benefit of all employees on an equal basis. As the UK experience indicates, creating this kind of legal clarity behind what an EOT is, and how it is recognized in state law, plays an important role in legitimating and building confidence in the EOT concept among stakeholders.

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[6] Ibid, *House Bill 21-1241* (2021).

In 2023, **HB23-1081** built on this foundation and increased the claimable tax credit for worker-cooperative and EOT conversions from $25,000 to $40,000 and conversions to an ESOP from $100,000 to $150,000. The bill also extended eligibility to hybrid equity structures, highlighting how the State's policy infrastructure was coevolving with changing EO models over time.

In 2024, **HB24-1157** codified the Employee Ownership Office as a statutory entity within OEDIT. It also introduced a refundable tax credit for new employee-owned businesses (up to 7 years old), covering up to 50% of specified costs (up to $50,000) incurred for sustaining their EO structure, available from 2025 to 2029. The credit can be applied to expenses such as business valuations, ongoing legal fees for plan administration, corporate governance and regulatory compliance, and expenses for EO training and education related to maintaining the ownership structure.

In 2025, **HB25-1021** created two income tax subtractions and extended the conversion tax credit program through income tax years commencing in 2031. Capital gains tax subtractions are now available for business owners that sell at least 20% of their company to a qualified employee-owned business (ESOP, EOT, or worker-cooperative). The exact amounts are specified by OEDIT and subject to change annually. The second tax subtraction allows for worker-cooperatives to deduct up to $1 million of their federal taxable income from their state income. The act also specifies that the aggregate amount of credits that can be claimed for each income tax year commencing on or after January 1, 2026, but before January 1, 2032, is $3 million. HB25-1021 further expands the percentage of conversion and expansion costs that are eligible to be claimed for the credit from 50% to 75% beginning in 2026 and through 2037.

Taken together, these policies signify Colorado's strong belief in the merits and economic viability of employee-ownership, but the fact remains that EOTs in Colorado remain rare. EOT's status in trust law remains unclearly defined, understanding of this business form among business owners and employees is underdeveloped, technical assistance for EOT conversion across the state is inadequate, and favorable tax treatment and other financial support could be expanded. Colorado's current legal and financial incentives continue to favor ESOPs, leaving EOTs underdeveloped, despite their unique advantages. These policy gaps hamper Colorado's ability to fully leverage EOTs to meet the succession crisis posed by its aging business owners. To address the Silver Tsunami, expand local ownership, preserve community wealth, and lock-in social values, Colorado—like other states—should evolve its EO policy framework to recognize and incentivize Employee Ownership Trusts as a distinct and viable succession pathway.

Colorado EO Policies Tracker

Policy Details	Provisions
2017 **HB17-1214** Encourage Employee Ownership Of Existing Small Business	• Requires the Colorado Office of Economic Development to engage with local nonprofit organizations that support and promote employee-owned business model for educational purposes in order for the office to promote employee ownership as part of its small business assistance center • Requires office to establish and administer a revolving loan program to assist transitions of existing businesses to employee-owned businesses. • Office may enter into contract (following open and competitive process) with local non depository nonprofit to establish and administer the revolving loan program • Allows collaboration between office and CHFA to assist in offering loans under the program • Outlines the specific types of business that qualify for the program, sets loan maximums, and specifies the parameters of loan usage • Allows office to seek matching private sector money to help capitalize the program • Authorizes office to accept and expend gifts, grants, and donations to capitalize program (office may keep the first 15% of money raised for administration purposes) • Establishes revolving loan program cash fund (money in fund is continuously appropriated to the offices • Specifies that the office is required to establish guidelines and post on its website administrative details about the revolving loan program, such as fees, costs, interest rates, and loan terms • The bill includes a repeal of the section of law creating the program, effective July 1, 2022

2019
D 2019 005
	• Executive Order creating the Commission on Employee Ownership
	• Commission shall be housed within the Office of Economic Development and International Trade
	• The scope of the Commission shall be to support the development and advancement of employee-owned businesses by:
	  ◦ Establishing a robust and wide reaching network of technical support for businesses wishing to convert to employee ownership;
	  ◦ Educating businesses and communities across the State on the economic and community benefits of employee owned businesses; and
	  ◦ Identifying barriers to the development and advancement of employee-owned businesses and recommending State actions and resources to remove such barriers
	• The Commission shall develop, in consultation with the Governor's Office, recommendations consistent with subparagraph B, above, and the Commission shall deliver such recommendations to the Governor and General Assembly.

	• The Commission shall consist of no fewer than 10 and no more than 25 members, and the COmission shall reflect the geographic representation of the State when possible. The Commission may include, but is not limited to the following: ◦ Between 10 and 18 members that are appointed by and serve at the pleasure of the Governor. Initial appointments to the Commission shall be for two-year or four-year terms, and thereafter members shall serve four-year terms. Members shall have experience and knowledge in the following areas ▪ Small business development; ▪ Law; ▪ Finance; ▪ Employee-owned business; ▪ Philanthropy; or ▪ Public Interest. ▪ The Executive Director of the Office of Economic Development and International Trade, or his or her designee; ▪ The Executive Director of the Department of Local Affairs, or his or her designee; ▪ The Executive Director of the Department of Regulatory Agencies, or his or her designee; ▪ The Executive Director of the Department of Labor and Employment, or his or her designee; and ▪ The Commissioner of the Department of Agriculture, or his or her designee
2021 **HB21-1241** Employee-owned Business Loan Program Modifications	The act modifies requirements for an existing loan program (program) created to assist transitions of businesses to employee-owned businesses. • Repeals statutory eligibility requirements and requires the office of economic development to establish eligibility criteria for the program • Criteria must include annual gross revenues limitation for participation in the program, set up to or less than $50 million. • Criteria must also establish requirements for the number of employees who will be offered the option to participate in the employee-ownership opportunity. • A loan under the program may be used toward the purchase of the business by the employees. • Repeals the requirements for the terms of the loans pursuant to existing statutory requirements • The act extends the program through July 1, 2025
2021 **HB21-1311** Income Tax	Section 9 of the act creates a temporary income tax credit for a business for a percentage of the conversion costs to convert the business to a worker-owned coop, an employee stock ownership plan, or an employee ownership trust.
2023 **C.R.S. 39-22-542** Employee Ownership Tax Credit to Establish or to Expand	Provides $10 million annually in tax credits to fund professional service costs of conversion to employee ownership

2023 **HB23-1081** Employee Ownership Tax Credit Expansion	Expanded the above program's eligibility criteria. The expansion bill provides four of the following updates to the program: • Increases the cap for converting a qualified business to a worker-owned cooperative or employee ownership trust from \$25,000 to \$40,000, and increases the cap for converting a qualified business to an employee stock ownership plan from \$100,000 to \$150,000; • Effective for applications dated on or after January 1, 2024: Expands the tax credit to include 50% of the costs of a qualified employee-owned business expanding its employee ownership by at least 20%, not to exceed \$25,000; • Expands the tax credit to include 50% of the costs of a qualified business converting to or expanding an alternate equity structure, not to exceed \$25,000. An alternate equity structure is a mechanism under which an employer grants to employees a form of employee ownership, including LLC membership, phantom stock, profit interest, restricted stock, stock appreciation right, stock option, or synthetic equity. The bill establishes certain minimum requirements for an alternate equity structure and requires the Colorado office of economic development in the office of the governor to develop guidelines for the types of employee ownership grants that qualify as an alternate equity structure. • Specifies that a qualified business or qualified employee-owned business may apply for and claim only one credit for the conversion or expansion costs per tax year.
2024 **HB24-1157** EO Business Office & Income Tax Credit	The act creates the employee ownership office (office), which was originally created administratively by the governor in 2020 as a statutory entity within the office of economic development (OED). • The act also creates a refundable income tax credit for income tax years 2025 to 2029 for up to 50% of specified costs incurred by new employee-owned businesses, not to exceed \$50,000. • New employee-owned businesses are defined as businesses that have been employee-owned for 7 or fewer years. • The tax credit is administered by the office, which may allocate up to \$1.5 million in tax credits per year. • The office is required to include information on the effectiveness of the tax credit in OED's annual report to the general assembly. • The act also creates the employee ownership cash fund, which is to be used by the office for the administration of the tax credit and consists of fees collected from applications for the tax credit. • The tax credit and cash fund are repealed on January 1, 2035. • For the 2024-25 state fiscal year, \$145,847 is appropriated from the general fund to the office of the governor for use for the employee ownership office.
2025 **HB25-1021** Tax Incentives for Employee-Owned Businesses	The act creates two income tax subtractions for income tax years commencing on or after January 1, 2027, but before January 1, 2038. • The first subtraction is for an amount equal to state capital gains that are realized by a taxpayer, who is the owner of a qualified business, during the taxable year for the conversion by an increment of at least 20% ownership to a qualified employee-owned business.

5
State-Level Policy Recommendations to Grow EOTs

Though states like Colorado have established themselves as a national leader in supporting EOTs through legislative and administrative innovations, the landscape of EOTs across the nation remains sparse. Just as policy innovation in the United Kingdom spurred a substantial growth of EOTs there, US state leaders could consider a range of policy options to clarify the legal status of EOTs, provide favorable tax treatment and financial support, and deliver technical assistance to the burgeoning EOT movement. Policy innovations are most needed in the following areas:

- ✓ Define EOT's more clearly as a recognized business form in **State Trust Law**
- ✓ Provide **Favorable Tax Treatment** for EOTs
- ✓ Pass **Preferred Procurement/Bid Prefence Policies** for EOTs
- ✓ Catalyze a **Stronger EOT Support Eco-System**.

5.1 Define in Law: Enact Statutes Explicitly Defining and Authorizing EOTs

To legitimize the Employee Ownership Trust (EOT) model and establish it as a recognized, values-aligned ownership structure, states should pass enabling legislation modeled on Oregon's ORS 130.193 stewardship trust statute. Though Oregon's law does not specifically identify "Employee Owned Trusts" as a business form, it has the following favorable features:

- Authorizes a **stewardship trust** to be created "for a business purpose" even without a definitely ascertainable beneficiary.
- Establishes that the trust may hold ownership interests in corporations, partnerships, cooperatives, LLCs, etc.
- Sets out governance features, such as a **trust stewardship committee** that directs the trustee and exercises fiduciary duty, and a **trust enforcer(s)** who enforces the purposes and terms of the trust
- Establishes that the stewardship trust may be enforced "for more than 90 years … or in perpetuity"
- Treats stewardship trusts as a form of **noncharitable purpose trust** tailored to business purposes and establishes that **courts cannot reduce the trust corpus** just because the assets exceed what's needed for the purpose

Clarifying all these same principles in state trust laws across the nation would provide a stronger legal foundation to EOT conversions, helping to build legitimacy among key stakeholders like business owners, lawyers, and financiers who may wish to consider such a business model. Changes to state trust law recognizing the EOT model should contain the following provisions.

1. ***Define Employee Ownership Trusts***

   Legally recognize EOTs as perpetual business trusts established for the collective benefit of all present and future employees and allow for the embedding of tandem social purpose(s) alongside employee benefits. Clarify that an EOT's exclusive purposes may include: holding ownership of the business on behalf of employees, promoting both the financial and non-financial interests of employees, preserving democratic voting rights as an optional governance feature, and prioritizing certain trust purposes over others (e.g., environment protection, local purchasing), as determined by the trust deed.

2. ***Authorize Umbrella Ownership***

   Permit EOTs to hold partial or full ownership of corporations, LLCs, cooperatives, partnerships, or other business entities, ensuring broad applicability across business types. Ideally, this provision would provide an exemption to the provision featured in some states' trust codes that allows for juridical reduction in trust assets deemed excessive for its social purpose. To allow for the formation of EOTs like Cleggs (a trust specifically built to grow assets and add businesses: see case study), Colorado's trust code needs to allow EOTs the freedom to "roll-up" entities of all types to broaden their potential impact in mitigating the Silver Tsunami and increase their ability to benefit employees as their scale grows.

3. ***Establish Trust Governance and Oversight***

   Clarify governance provisions for authorized EOTs, such as requiring appointment of one or more trustee(s) with fiduciary duties to oversee the trust's employee-benefit purpose, requiring appointment of a trust protector or enforcer, and requiring an employee advisory council to provide input and representation to support participatory governance.

4. ***Clarify Fiduciary Accountability and Protections***

   Require trustees to act in accordance with stewardship committee directives unless they are clearly in conflict with fiduciary duties. Provide liability protections for trustees acting in good faith on those directives, barring willful misconduct.

5. ***Enable Perpetuity and Mission Durability***

   Allow EOTs to exist in perpetuity. Limit any modification or dissolution of the trust to a unanimous vote by both the stewardship committee and the trust enforcers, preserving the long-term integrity of the ownership structure.

6. *Mandate Transparency and Accountability*

Require annual reporting by trustees on financial health, ownership structure, employee participation mechanisms, and fulfillment of the trust's purpose.

5.2 Provide Favorable Tax Treatment

In the United Kingdom, the EOT favorable tax treatment in the 2014 Finance Act has had a substantial impact on catalyzing EOT growth. Colorado is a national leader in moving down this same path in the USA. For example, Colorado's HB25-1021 allows a substantial portion of the capital gains from a business EOT sale to be subtracted from one's federal taxable income when calculating a seller's state income taxes owed. Capital gains tax subtractions are now available (starting in 2031) for business owners that sell at least 20% of their company to a qualified employee-owned business (ESOP, EOT, or worker-cooperative). The exact amounts are specified by the Colorado's OEDIT office and subject to change annually.

This policy is one of the first such capital gains tax relief offered by a US State to EOT conversions, but there is room for Colorado (and all US States) to go even further with EOT-Favorable tax treatment. For example:

1. *Raise Colorado's existing EOT Conversion Cost Tax Credit Cap to $100,000*

Increase the current $40,000 cap on the employee ownership tax credit for costs associated with EOT conversions to at least $100,000. This adjustment would provide greater support for business owners and buyers considering EOT conversion and would create greater parity with the $150,000 cap for ESOP conversions.

2. *State Income Tax Deductions/Credits for Sellers*

When businesses are sold, much of the profits from the sale are treated as capital gains. Colorado law exempts a portion of those gains from state taxation for EOT conversions. But some portion of a business sale is commonly taxed as ordinary income (not capital gains), such as the sale of business inventory and accounts receivable. If an EOT conversion involves sale of those "ordinary income" assets, state law in Colorado and elsewhere could allow business owners to deduct a portion of the sale price from their state taxable income when selling to an EOT.

3. *State Corporate Income Tax Relief for EOT-Owned Businesses*

- For EOTs operating as a C Corporation (and not passing all earnings through to employees), a tax credit against state business income tax liability could be provided.

- Additional credits for reinvestment of retained earnings into business improvement/expansion activities, such as worker training programs, would incentivize business investment to help ensure that EOT companies remain competitive.
- Modeled on Colorado's existing "Job Growth Incentive Tax Credits" for new local jobs generated by businesses that are considering expansion internationally or in other states, a job retention tax credit could be offered for employee ownership conversions involving retiring business owners who might otherwise close their business or sell to out-of-state buyers.
- A reduction in the state corporate income tax rate could be applied to EOT firms

4. ***Property Tax Incentives***

States could provide Reduced property taxes or enhanced business personal property tax exemptions for certified employee-owned firms.

5. ***Tax-Exemption on Interest Income***

Colorado considers interest earned on business loans as taxable income, unless a specific exemption applies. Exemptions are allowed for interest on US government and municipal interests (e.g., bonds) and on loans provided to some agricultural and small business programs. Such interest income tax exemptions are common in US states, but states do not apply this exemption to interest earned by lending to EOT projects. Exempting interest-income from loans provided to certified Employee Ownership conversion projects would encourage local banks and Community Development Financial Institutions to lend.

5.3 Pass Preferred Procurement/Bid Preference Policies for EOTs

Employee-owned companies (including EOTs) could receive bid preferences in state procurement contracts, thus enhancing their competitive edge in public contracting processes. As a model, in 2025 Oregon became the first state to grant procurement preference to businesses where employees own at least 50% of the company, either directly or through an ESOP, provided the cost of goods or services is no more than 5% higher than other bids. Maryland also passed Senate Bill 653 in 2025, creating a procurement preference program within some state institutions for the use of ESOP enterprises.

Many other states have similar preferential procurement programs such as Colorado's bid preference in state procurement for **Service-Disabled Veteran-Owned Businesses**, under CRS § 24-103-905. Colorado also has a **Statewide Supplier Diversity Program** which aims to reduce procurement disparities for historically underutilized businesses. The program encourages participation from small, minority-owned, women-owned, and veteran-owned businesses in state contracting opportunities. Colorado Revised Statutes § 24-103-904 also provides a purchasing preference for **environmentally preferable products**. State agencies are encouraged to award contracts to bidders offering products with reduced adverse effects on human health and the environment.

Aligned with these models, States could design purchasing preference programs for employee-owned businesses, including EOTs. In many current state and municipal preferential procurement policies, such a preference is applied to bids that are up to 10% higher than competing offers.

5.3 Catalyze a Stronger EOT-Support Eco-System

Multiple states fund state offices and local non-profits to serve as technical support resource hubs to the local employee ownership movement, such as California's Small Business Advocate Office's Employee Ownership Hub or Wisconsin's Center for Employee Ownership. Building on this foundation, states can continue to build out an Employee Ownership Support Eco-System, which is especially needed to help grow the generally unknown EOT model. Important eco-system support initiatives could include:

1. ***Better EOT Data Collection and Evaluation Programs***

   Provide funding to state employee ownership offices or local nonprofits to track key EOT metrics (i.e., range of business owner interest, number of conversions, demographics, geographic distribution, job retention and growth impact, and reinvestment outcomes). As the newest employee-ownership entity in the US, there is need to build out the EOT knowledge-infrastructure. Better data tracking and evaluation can strengthen future policy and make the public benefits of EOTs visible, measurable, and more readily scalable.

2. ***A Dedicated EOT Technical Assistance Fund***

   Tailored technical assistance is critical for ensuring high-quality transitions and long-term success. State employee-ownership assistance agencies could be directed to administer a new technical assistance fund that subsidizes EOT-specific third-party advisory services, including assistance with feasibility studies, legal structuring, trust deed design, valuation, and governance planning, employee education programs, and owner/management workshops. Third Party advisory groups funded through such programs could work with state agencies to compile an EOT conversion toolkit, including governance suggestions, sample trust deeds and general best-practice models to be disseminated across the state.

3. *A Centralized Knowledge and Resource Hub*

For all their potential, EOTs are still an underdeveloped and not well understood business model. A centralized, digital EOT Resource Hub could provide resources such as:

- EOT legal frameworks, templates, and sample documents
- Conversion process checklists and timelines
- Financial modeling tools for valuation and profit-sharing, cash-flow projections, including interactive calculators for estimating tax credits, employee payouts, and trustee fees
- Loan / financing guidance: mapping access to CDFIs, banks, or state loan programs for conversions
- Case studies of successful EOT transitions
- FAQs and troubleshooting guides for operational, governance, and tax issues

4. *Certification & Recognition*

State agencies could work with employee ownership resource centers to foster EOT public recognition initiatives such through EOT-friendly certifications for companies, advisors, and trustees. Most states provide certifications for one or more of the following kinds of businesses: minority-owned, women-owned, veteran-owned, or small enterprises.[7] The US Chamber of Commerce notes that "certifying your business can help open the door to…countless other opportunities in both the private and public sectors."[8] For example, Colorado provides a variety of state-recognized certification to "benefit small and/or diverse businesses" by increasing their visibility to potential customers. Certifications are available for diverse-owned and veteran-owned businesses, small businesses, and businesses in recognized "underutilized business zones."[9] Some scholarly research indicates that state-certification programs like this can help differentiate companies and facilitate their growth by allowing customers to support their social values when purchasing their goods and services.[10]

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[8] US Chamber of Commerce. (2025). A Guide to Business Certifications for Small Business Owners. Retrieved October 25, 2025, from https://www.uschamber.com/co/start/strategy/small-business-certifications-guide.

[9] Colorado Division of Human Resources, "Certifications for Small and Diverse Suppliers & Contractors." Retrieved October 26, 2025, from https://dhr.colorado.gov/supplier-diversity/business-certifications.

[10] Porter, K.K. (2019). Certifications and Other Tactics to Help Small Firms Leverage, Differentiate, and Win!. In: *Implementing Supplier Diversity*. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-319-94394-7_8

6
Toward Trust: How EOTs Can Meet the Moment

Nationwide, states are facing the economic challenges of the growing "Silver Tsunami" of baby boomer business retirements, growing wealth inequality, and declining local economic resilience. With the largest retirement of business owners in the nation's history now getting underway, forecasters predict thousands of small business closures and sales to out-of-area investors in the years to come. It is not a promising forecast for supporters of local resilience, community-rooted businesses, and employee-oriented enterprises. But the employee ownership movement offers a promising response.

Employee ownership is a model that works within the capitalist system to build worker power, sustain local economies, and share the prosperity. Employee ownership is a model rooted not in extraction, but in stewardship. It is a model that advances equity, enshrines social purpose, builds community, and democratizes economic decision-making. As part of the employee ownership movement, employee ownership trusts (EOTs) in the US have great potential, and growing international success, but they remain greatly underdeveloped. If the substantial potentials of this employee ownership form are to be realized, it will take state-level innovation to show the way.

States like Colorado, Oregon, and Washington are stepping up as national leaders in this movement, but even employee ownership models in these states have largely centered on ESOPs. ESOPs are a valuable tool for building employee retirement assets, but this model is complex to adopt and sustain and still bears the imprint of a finance-first logic. The core goal of ESOP trustees must be to maximize economic benefits for current workers, without significant concern for the perpetuity of the business as ESOP owned or other social concerns that might be written into a broader "perpetual purpose trust" model like EOTs.

EOTs present a promising innovation—another arrow in the quiver of employee ownership advocates. They allow for conversion to employee ownership without the very complicated rules governing ESOPs, so they are well-suited to retiring smaller business owners who might wish to avoid such complications in their values-driven conversion to employee ownership. The fact that an EOT trust document prioritizes the benefits for all employees for perpetuity, and can embed additional social purposes as well (such as environmental protection), allows an EOT to resist a solitary focus on retirement account growth for current employees. Whereas an ESOP is generally obliged to sell the company to private, traditional ownership if in the fiduciary interests of current employees (as in the case of New Belgium Fat Tire Brewery), an EOT can exist in perpetuity to advance the interests of current and future employees, while also adhering to additional social values that may be embedded in the trust document. In this way, EOTs help re-embed economic enterprises within social relations, shielding firms from the ravages of the market by insulating worker governance from hostile takeovers, investor speculation, or mission drift.

EOT's also differ from worker-owned cooperatives, in that worker coops typically involve deep engagement of individual work-owners in helping to govern or manage their business, and these cooperatives depend on the business expertise of their worker-owners to succeed long-term. However, EOTs are governed through a trust structure and they do not depend on intensive management engagement from workers and work well for businesses whose workers do not have the desire or expertise to directly manage their own business. Moreover, they have a perpetual purpose trust deed that outlines the employee-benefits and social purpose objectives of the EOT, which are meant to outlive any current group of owners.

ESOPS, worker cooperatives, and EOTs are all dedicated to the cause of employee ownership, and each is suited to its own set of circumstances. Growing the employee-ownership movement means recognizing that not all EO models are equal and there is need for multiple paths to achieve more democratic and widely shared ownership. EOTs offer a promising path towards economic transformation, but only if our laws, our institutions, and our imaginations clear the way to realize their potential. To continue facilitating local economic resilience, states should embrace the EOT as a key alternative to workplace organization and succession. The work ahead is not merely technical, but is also political. With proper policy support, EOTs can meet their moment.

Appendix Documents

The following documents are included in this appendix.

- Establishing an EOT: Key Stages
- Financing the EOT Conversion: Sources of Capital
- Summary of Selected State-Level Employee Ownership Support Legislation
- Sample EOTs and Perpetual Purpose Trusts Across USA
- Clegg Auto Repair EOT Case Study
- Firebrand Artisan Bread EOT Case Study
- Organically Grown Company EOT Case Study

Establishing an EOT: Key Stages

1 Assess Company Suitability

The first step is to conduct a comprehensive feasibility study. This includes a review of the company's financial health (assets, liabilities, cash flow, and overall profitability) to determine if the business can support a transition to employee ownership. New debt is often required to purchase the business, so cash flow considerations will have to consider capacity of business to take on new obligations. It's also important to assess the cultural and operational readiness of the company for this shift.

2 Consult with EOT Expert

Proper EOT establishment requires specialized knowledge and due diligence. Consulting with experts, such as a trust lawyer and an employee ownership resource center and a trust lawyer, can provide technical assistance and ensure compliance with relevant law

3 Independent Valuation

An impartial third-party valuer is often engaged to determine the fair market value of the business. This valuation serves as the basis for the purchase price the EOT will pay to acquire the company shares. Though independent valuation is a wise step, there is no law requiring such valuation, as opposed to strict federal laws requiring independent and annual valuations of an ESOP.

4 Drafting the Trust Deed

The trust deed outlines the core structure and terms of the EOT. It defines the trust's purpose--to benefit all employees equally--but also might include additional social purposes such as buying local or environmental protection. The trust deed also defines rules around profit distribution, share ownership details, and governance structure such as powers of the Trustee Committee and nature of employee governance participation, as worker representatives are often involved in decisions that significantly affect the workforce or strategic business direction.

Establishing an EOT: Key Stages

5

Appointing Trustees

A trustee board is appointed to oversee the trust in alignment with its mission. Trustee boards typically include a mix of founders, employee representatives, capital investors, community stakeholders, and/or independent advisors. It is critical that trustees understand both the business and the values guiding the EOT structure, as they are responsible for safeguarding employee interests.

6

Arranging Financing and Purchase Agreement

The purchase of the business is typically financed through such strategies as: available cash on the company's balance sheet, owner financing, vendor financing (where the provider of goods or services receives deferred payments over time), social impact investors, community development finance institutions, and traditional business loans.

7

Purchase and Share Transfer

Once financing is arranged, the EOT purchases the shares from the owner, and legal ownership is formally transferred to the trust. Payments to the seller are made according to the agreed-upon timeline, often through a combination of an upfront payment and a series of structured payments from future profits

8

Transition to EOT Ownerships

The transition generally does not require immediate changes to the company's operational structure. To meet EOT goals of employee benefit, EOTs commonly develop programs to support employee development, such as employee workplace councils, leadership and skills development programs, or opportunities to participate in management and financial planning of the business.

FINANCING THE EOT CONVERSION	
External Sources of Capital	
Traditional Commercial Lenders	For companies that have a strong and steady cash flow, traditional commercial lenders can provide financing based on company assets, cash flows, and revenue projections.
Community Development Financial Institutions	CDFIs are mission-driven to provide affordable, fair, and responsible financial products and services to underserved communities that traditional banks often do not reach. CDFIs can include banks, credit unions, loan funds, and venture capital funds, and they focus on economic development by lending and investing in social impact projects like EOTs.
Mezzanine Debt	EOT pays a portion of the cash up front and borrows the rest from a social impact lender. Typically incurs higher interest rates because the lender assumes more risk, but offers customizable repayment options – such as deferred payments or partial equity.
Silent Third-Party Equity	Capital provided by social impact investors, foundations, or mission-aligned funds that offer equity without seeking control. These investors benefit from aligning their social values with long-term equity appreciation and a future buy-back of shares.
Vendor Financing	Financing provided by key vendors as part of a contractual relationship. This option is particularly viable if the company transitioning to an EOT is critical to the vendor's supply chain.
Internal Sources of Capital	
Seller Financing	Business owner finances part or all of the transaction, agreeing to be paid out over time through debt notes or earn-out agreements. An EOT can payout an agreed percentage per dollar of operating profits until the seller is made whole, for example.
Company Share Buybacks	Retained earnings are deployed to gradually repurchase shares from the seller owner, spreading out taxation over time and minimizing the selling owners' risk.
Balance Sheet Cash	Reserves, if available, can be used to wholly or partially finance the transaction – minimizing the EOTs debt obligations and simplifying the transition.
Direct Employee Share Purchases	Employees invest personal capital to directly purchase shares and help finance the transaction.

Summary of Selected State-Level Employee Ownership Support Legislation

The table below encompasses enacted and proposed policies across the United States that include, reference, or directly target Employee Ownership Trusts.

US EO Policy Tracker				
State	**Year**	**Summary**	**Status**	**Reference**
Access to Capital				
Colorado	2017	-Requires Colorado OEDIT to engage the services of local nonprofits that support EO to educate OEDIT staff on the merits and forms of EO so that the office may promote employee-ownership as apart of its small business assistance center -Establishes a revolving loan program to assist existing small business transitions to employee-ownership. Eligibility requirements to be established by OEDIT and published on its website - Authorizes the office to accept and expend gifts, grants, and donations to capitalize the program, and may annually keep the first 15% of the money raised for administration purposes.	Passed	Bills HB17-1214
Massachusetts	2010	Established within the Massachusetts Growth Capital Corporation a separate fund to be known as the Employee–Ownership Revolving Loan Fund, the proceeds of which shall be used to provide low interest long term loans to individuals for the purchase of such individual's ownership interest in an employee-owned business.	Passed	MA Gen L ch 23d § 16 (2023)
Massachusetts	2023	Provided funding to state EO center, earmarking $300,000 for FY2023, $150,000 for FY2024, and $200,000 for FY2025	Passed	
Minnesota	2023	Creates the community wealth-building grant program to fund grants to community development financial institutions and nonprofits to make low interest loans to cooperatives, employee-owned businesses, and commercial land trusts that are at least 51 percent owned by people who are Black, Indigenous, People of Color, immigrants, low-income, women, veterans, or people with disabilities. Appropriates $15,000,000 from the general fund for this program.	Passed	HF 3733
Comprehensive State Law				
California	2023	-Established Employee Ownership Hub within the California Governor's Office of Business and Economic Development. -Hub is mandated to: (1) work to enhance opportunities and reduce barriers to EO, (2) educate business owners and employees about EO, (3) provide legal, technical, and financial resources for employee ownership conversions to desiring business owners, (4) develop recommendations on how state-run capital programs can support employee-ownership transitions, and (5) report to the legislature.	Passed*	SB1407

		*No funds appropriated, future uncertain		
Massachusetts	2022	Made state employee ownership center permanent under the Massachusetts Office of Business Development, with outreach, grants, and an advisory committee.	Passed	Bill S.261
Washington	2023	-Established EO program with director housed in Washington State Dept of Commerce. - Created oversight committee featuring legislators, private business owners, employee-owners, development specialists, and a member from the department of commerce. - Created tax credit for ESOPs, worker coops, and EOTs of up to 50% of the first $100,000 for ESOPs and $25,000 for worker coops and EOTs. The total amount of credits is capped at $2 million per year. - Created a revolving loan fund that would directly support financing for ESOP or worker cooperative conversion transactions.	Defunded and Sunset as of June 2025.	S.B. 5096
Delaware	2008	Authorized the creation of Noncharitable Perpetual Purpose Trusts	Passed	SB 247
		State EO Program		
Illinois	1995	The Center would be tasked with fostering greater awareness of employee ownership as a business succession and job retention strategy by disseminating information on employee ownership, providing technical assistance, convening conferences and workshops on business ownership succession and employee ownership, and coordinating with economic development organizations, business and labor groups, nonprofits, and other stakeholders to advance the Center's mission.	Passed	P.A 89-364
Indiana	2025	Bill would create and fund an Indiana Employee-Owned Business Resource Center; Provide education and awareness concerning the benefits of employee ownership and employee ownership succession Provide technical assistance to: (A) employees seeking to start an employee-owned business; or (B) business owners exploring the possibility of transferring full or partial ownership to employees Train employees and employers with respect to methods of employee participation in open-book management, work teams, committees, and other approaches for seeking greater employee input. Create and manage an employee ownership referral service that connects business owners and employees with local legal, financial, and technical advisers. Conduct research, studies, and analyses concerning employee ownership. The bill would also create a low-interest revolving loan	Passed	S. Bill 175

		program. It does not specify a funding amount for the fund. The fund could also accept outside donations.		
EO Incentive				
Massachusetts	2025	- If passed, the bill requires that small business owners offer a 30-day right of first refusal to a "qualified employee group" in the event that the owner chooses to sell the company in an equity sale. Employees must be told about employee ownership as an option and how to get information from the Massachusetts Employee Ownership Center. Employees will have 180 days to make a competing offer if they notify the owner within 30 days of their intent to do so. If the offer is for as much or more than any other bona fide offer during that time, the owner must sell to the employees. - Owners selling to qualified employee group would receive a capital gains exception on the first $1 million of the sale.	Proposed	Bill H.503 S.305
Massachusetts	2025	If passed, would exempt capital gains from the sale of a Massachusetts business with 500 or fewer employees from capital gains taxation	Proposed	S. 1950
Michigan		-$500,000 pilot program designed to expand access to employee ownership for Michigan's businesses and workers. - The program allocates $400,000 to help businesses pay for feasibility assessments and other costs of setting up a plan. - The MICEO will lead a statewide marketing and outreach program. The MICEO will also develop best practices for employee ownership trusts (EOTs)		New $500,000 pilot to expand employee ownership opportunities
Enabling Environment				
Oregon	2019	Permits the creation of a noncharitable business purpose trust, called "stewardship trusts", exempt from the rule against perpetuities	Passed	ORS 130.193
Texas	2023	Permits the creation of a perpetual noncharitable purpose trust without an ascertainable beneficiary	Passed	HB 2333
State Funding for EO Center				
Vermont	2006	The Vermont Employee Ownership Center (VEOC) has received grant funding annually from the State of Vermont's Agency of Commerce and Community Development (ACCD) since approximately 2006		Vermont Employee Ownership

Sample EOTs and Perpetual Purpose Trusts Across USA

Organization Name	City	State	Year Founded	Year of Trust Formation
Employee Ownership Trust				
ACP International	Arlington	TX	1986	2022
Arbor Assays	Ann Arbor	MI	2007	2017
Bicycle Technologies International	Santa Fe	NM	1993	2021
BioWorks	Rochester	NY	1993	2020
Caboose	Lakewood	CO	1938	2020
California Harvesters	Bakersfield	CA	2018	2018
Clegg Auto	Provo	UT	1998	2022
CodeWeavers	St. Paul	MN	1996	2023
Craftsman Technology Group	Boston	MA	2015	2022
Cypress Valley Meat Company	Pottsville	AR	2010	
Dependable Machines	Hayden	ID	2010	
Equity Atlas	Beaverton	OR	2014	2016
Hummingbird Wholesale	Eugene	OR	1973	2023
Illuminator Collective	Brooklyn	NY	2012	
Local Ocean Seafoods	Newport	OR	2002	2022
Metis Construction	Seattle	WA	2009	2016
Montecito Estate Management	Montecito	CA		2023
Ocaquatics Swim School	Miami	FL	1994	2024
Optimax Systems	Rochester	NY	1991	2021
Organically Grown	Eugene	OR	1978	2018
Paras and Associates	Berkeley	CA	2004	2019
Resource Development Associates	Oakland	CA	1984	2023
Samamkaya Back Care & Scoliosis Yoga	New York	NY	2015	2015
Sandias Executive Search	Albuquerque	NM	1998	2021
Schoenstein & Co.	Benicia	CA	1877	2023
ShopBot Tools	Durham	NC	1996	2021
WATG	Irvine	CA	1945	2014
Workers Transport, Inc.	Brooklyn	NY	2013	
Land Term Benefit Trust				
Anthropic	San Francisco	CA	2021	2023
Perpetual Purpose Trust | ESOP				
Berrett-Koehler	Alameda	CA	1992	2020

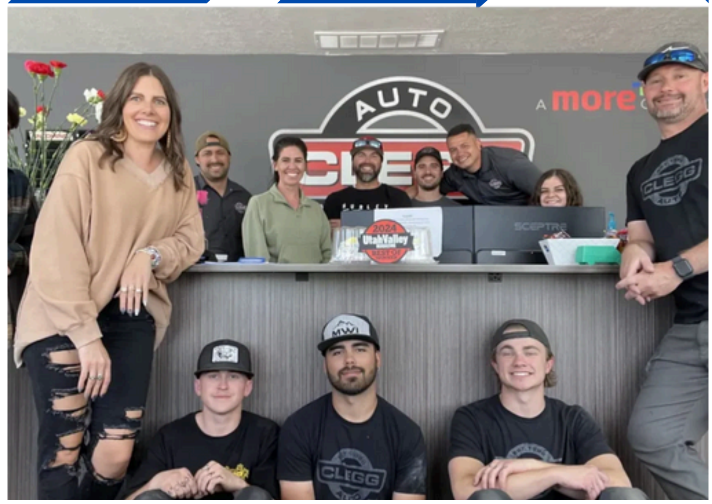
Perpetual Purpose Trust				
Biohabitats	Baltimore	MD	1982	2023
Breaking Ground		DE	2021	2023
Concept2	Morrisville	VT	1976	2025
Firebrand Artisan Breads	Oakland	CA	2008	2020
Grand Central Bakery	Seattle	WA	1989	2022
Impact Conveners Trust	Santa Cruz	CA		2021
Management Science Associates	Pittsburgh	PA	1963	2023
Natural Investments	San Francisco	CA	1985	2023
NW Media Inc	Eugene	OR	1985	2023
Sundance Natural Foods	Eugene	OR	1971	2023
Patagonia	Ventura	CA	1973	2022
Text-Em-All	Frisco	TX	2005	2023
The Trust for Workers		WA	2019	2019
Vernier Science Education	Beaverton	OR	1981	2023
Walker Group	Farmington	CT	1986	2023
Zingerman's	Ann Arbor	MI	1982	2023
Mixed-Income Neighborhood Trust				
East Boston Neighborhood Trust	Boston	MA	2022	2022
East Colfax Mixed-Income Neighborhood Trust	Denver and Aurora	CO	2024	2024
Fresno Mixed-Income Neighborhood Trust	Fresno	CA		
Kendall-Whittier Neighborhood Trust	Tulsa	OK	2021	2021
Northeast Neighborhood Trust	Kansas City	MO	2021	2021
Stewardship Trust				
Hobby Lobby	Oklahoma City	OK	1972	2022
Neighborhood Trust				
Kensington Corridor Trust	Philadelphia	PA	2019	2019

Clegg Auto: An Employee Ownership Trust

Clegg Auto EOT leads a coalition of multiple EOT companies, together benefiting over 100,000 employees. They offer higher than industry-standard wages, and health and retirement benefits to all employees.

The owners of Clegg Auto Repair Services in Utah chose to restructure the company into an Employee Ownership Trust in 2022. Since then, Clegg Auto has demonstrated how the stewardship trust model can uplift employees, and serve communities—all while dramatically increasing profits.

Between undergraduate and graduate school, Kevin Clegg, CEO of Clegg Auto, and Daron Jones, Vice President of Operations, started an auto repair business. Afterward, Kevin returned to school and earned a graduate degree in Organizational Behavior. Upon finishing graduate school, he gained professional experience at some of the most prominent companies in the country: "[I] went to work with lots of big Fortune 500 companies, Jacuzzi, Pulte Homes, USAA, Honeywell…" Kevin's brother, Daron Jones, also earned a Master's in Organizational Behavior, and was driven by the "goal to create environments and cultures where people could reach their full potential in a professional way." In 2020, Daron Jones reached out to his brother with a proposition about an auto shop he ran: "I don't know how to grow this thing… come do it with me," Kevin agreed, on one condition: "We'll sell it to [our] employees when we're done." The two joined forces—bringing their shared vision of values-centered business to life.



By the time Kevin rejoined his brother's operation, Clegg Auto had grown into a multi-site operation with "two more service shops, a body shop, and a sales lot." The brothers had long imagined selling the business to employees as a retirement plan, but then, Kevin recalled, "something clicked… this isn't an exit strategy, this is an operating model." After a decade spent building a values-driven, family-run enterprise, they weren't ready to cash out–they wanted to codify what they had built.

Over the next two years, Kevin and Daron researched employee ownership models that could protect the company's culture while embedding a long-term vision. "I learned the specifics of what an ESOP was, and realized that was a nonstarter," Kevin notes, referring to the burdens associated with cost, management, and valuation requirements associated with ESOPs. Additionally, Daron and Kevin were concerned that an ESOP could eventually be sold back into conventional ownership – running counter to the intention of keeping Clegg Auto employee-owned in perpetuity.

Reflecting on his professional experience prior to Clegg, Daron understood the potential consequences of an acquisition:"I can't work in a model that that would be the case, that supposedly what's in the best interests of employees would allow you to sell a thing to where they don't even have a job anymore, potentially."

All case study quotes from direct Interviews with report authors

CLEGG EOT: EMPLOYEE BENEFIT & SOCIAL PURPOSE

- Company profits jumped from $500,000 to $1.3 million one year after transition.
- Profit-sharing model and Above average wages for auto repair industry
- 401(k) retirement plan with matching contributions for all employees
- Custom health benefits plan
- 10% of profits to charity: half local, half global
- Support for local residents unable to afford car repairs.

"We have purposes, we are trying to hold on to them: we'd like to see businesses last in perpetuity, and we want to make sure that purposes like treating people like owners, sharing profits, help people find what matters most to them, and support them in those journeys."

"There are people that care. There are jobs that matter, you can make a difference, and you matter."

"As much as I"m pro employee ownership, I'm pro community...We live in the most connected world ever, and yet we truly don't build much together. So why not start now?"

--Kevin Clegg, CEO

THE EMPLOYEE OWNERSHIP TRUST (EOT) MODEL

With the help of Common Trust, a nonprofit focused on purpose trust transitions, Clegg Auto built its EOT on the legal foundation of a Perpetual Purpose Trust, an arrangement that would allow their vision to be held in trust indefinitely.

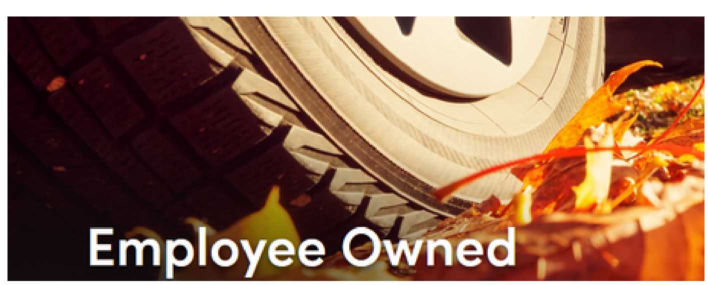
Under the EOT structure, Clegg employees gained access to profit-sharing, a voice in governance, and new opportunities for growth and development. The company created an internal employee development curriculum that, in Kevin's words, "helps people understand how to own their lives, their careers, and their company."

The goal wasn't merely to retain talent, but to help people find alignment between their lives and their work: "we're not focused on retention, we're focused on helping people discover what it is that they want from life and doing something about it," Kevin said. "Whether that's, 'I need some schooling,' or 'I need some connections to another company,' we would look at how we might accommodate as best we could as a company."

Shared Struggle: Shared Prosperity

"We have four businesses, three of the businesses were profitable, one of the businesses was not, so we started asking questions... do you just want to share profits within your own business? Or do you want to share it collectively knowing that the business that wasn't doing well is decreasing the profits for everybody else? And in this case, the managers decided that we were all a big family. So even though the one shop's profits dropped everybody else's down, they wanted everybody to share in the profits, even the business that wasn't profitable."

– Daron Clegg, VP of Operations



"BUILT TO GROW"

As CEO Kevin Clegg describes, their EOT has a goal to creating an "easy button" for additional small business owners to transition to employee ownership, "to protect not only their legacy, but to protect their customers and their employees as well." Through acquiring more enterprises through the trust, the team at Clegg are inspired to build a coalition of values-dedicated businesses and reward the cohort of retiring small business owners: "our vision is to help 10,000 small businesses transition to employee ownership in the next ten years"

On the road to achieving this goal, many of the small business owners that Daron and Kevin have met make up the "Silver Tsunami" of retiring baby boomers. "Most businesses don't have a succession plan," Daron stated, "Even if there's an affordable structure... What's the succession of leadership?"

Their long-term hope at Clegg is to connect with many of these retiring business owners and foster a growing alliance of employee-owned businesses – ones that retain their independence, but align around a shared purpose and stewarding ethos.

Kevin describes his vision of a kind of next-generation holding company or shared services platform that supports decentralized ownership with centralized purpose. The team at Clegg dream of "designing and building a structure that aligns on a common purpose, and lets people run it independently through their own C corp, so financially, we can't impact each other, but we're aligned by purpose so that we're building something bigger than ourselves."

When asked about the future, Daron reflects on how quickly their EOT model has grown. "On July 23rd, 2025... We just got word from one of our holding companies that they're bringing in a couple other businesses, and as our calculations start coming in, we recognize that we will eclipse the goal of blessing 100,000 employees' lives with the latest acquisition." Daron adds that "not only that, but thousands of communities across the US now understand and are voting with their feet to take business to employee owned companies,"

THE STEWARDISTS

Kevin and Daron describe themselves as "stewardists," a fitting term that expresses the deep moral purpose behind their work. Clegg's Stewardship model subverts the proverbial private equity acquisition pattern:"I feel like some form of rollups, like private equity, but done by an EOT, could be extremely powerful," Kevin notes.

The Stewardists imagine a future where employee ownership becomes the vehicle through which everyday businesses, the anchor of local communities, are preserved, scaled, and connected. In a world where private equity often extracts value and relocates wealth, they see EOTs as a way to "roll up" businesses – not for control, but for care. "I'm kind of sick and tired of the selfish nature of business, like, why do we have to protect what's good for people and make money on it instead of making it accessible... What if business was about like minded people coming together?" Clegg's transformation wasn't simply about transforming a single enterprise, therefore, it was about building a new model for the economy. "Let's start envisioning ways that we do more together as a business, let's actually make a difference.

The results of this model have been profound. The EOT has transformed Clegg's internal culture, aligning financial incentives with shared purpose. As one employee-owner put it, they "no longer work for somebody I don't see, who then takes all the profits...I know that if I put an extra effort, I could be rewarded for those things, and I like the people that I work with and [we're] aligned with common objectives."

Firebrand Artisan Breads: An Employee Ownership Trust

Firebrand Artisan Breads shows how a company with a social mission can take steps to ensure that its mission to serve the community and provide good jobs for those with barriers to employment continues as long the enterprise survives

Matthew Kreutz's dream had always been to work for himself, based on his lifetime commitment to "DIY (Do It Yourself) ethics" that is common in the lifestyle of punk subculture. Consequently, in 2008, Kreutz founded Firebrand Artisan Breads in a West Oakland warhouse. In the beginning, there were no goals other than keeping the store afloat for a few years. This goal required "emotionally and physically demanding work with long hours in an industry marked by high turnover, limited career opportunities, and little to no safety net for workers."[1] In 2012, Firebrand began to offer 24-hour delivery service, and the business grew exponentially after that. By 2018, there were 55 employees, 80% of whom were people of color, and 60% of all managers were women.[2] "I was more interested in hiring more vulnerable people," Kreutz recalls. " We did not require any resume or anything, but we welcomed anyone who was willing to work hard."

[1]www.purpose-economy.org/content/uploads/purpose-firebrand-artisan-breadscase-study.pdf,
[2]www.sec.gov/Archives/edgar data/1888815/000167025422000527/document_12.pdf

In 2020, Kreutz began to consider a stewardship trust model which could protect Firebrand's social mission into the future, while attracting value-aligned investors. "It took me 48 hours to decide to go with a perpetual purpose trust" stated Kreutz, as it provided a way to secure his social values regardless of who specifically invested in or managed the business.

"I can get hit by a car, but the company continuing with its mission without any external pressure was important for me." stated Kreutz. "Baking is a conduit through which we offer marginalized people an equitable workplace," Kreutz notes, and a perpetual purpose trust is a way of ensuring that this mission never changes and that the company can't be sold to larger investors, no matter the profits.

""It was always a natural and organic thing for us. I've never wanted to work at a place where I felt like I couldn't be myself. I've also been around a lot of people that don't have the fanciest education or most privileged background who can just kill it. Where their backgrounds were a real advantage, not on paper, but in real life, they add a huge amount to the company."

-- Matthew Kreutz, Founder Firebrand Artisan Breads

All uncited quotes are from direct Interview with report authors

DIGNIFIED WORK FOR VULNERABLE POPULATIONS

- Firebrand's EOT Trust Agreement specifies perpetual social purpose goals, such as; 1) "prioritizing the hiring of people who are formerly incarcerated, homeless, or otherwise have high barriers to entering the workforce" 2) "maintaining a profit-sharing program" 3) prioritizing "professional development of employees as well as increasing growth ladders" and 4) promoting "fair labor practices."
- 80% workers are formerly incarcerated or homeless people.
- Employees offered business management and personal development workshops
- Employees connected to social services, including legal assistance, housing assistance, ESL and GED classes.
- Employees enjoy, free health care, dental, and vision benefits.

"Firebrand seeks to stand at the center of a new wave of capitalism that leverages business to address complex societal problems."

"We believe through business we can create shared value for employees and the community"

- Matthew Kruetz, Founder

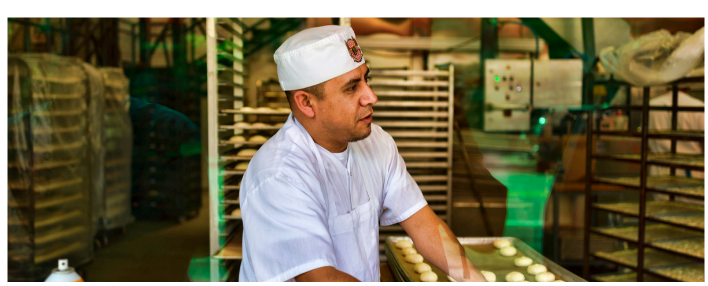
(www.purpose-economy.org/content/uploads/purpose-firebrand-artisan-breadscase-study.pdf)

COOP, ESOP, OR EOT?

To secure his values-driven mission, Kreutz considered other employee ownership models, such as worker cooperatives and ESOPs. However, Kreutz believed a worker cooperative works best in a small workspace and Firebrand was growing quite large. Also, his focus was less on providing "ownership" to employees, and more on maintaining the social mission of vulnerable workforce development, while also growing over the next 10 years so as to provide more jobs to marginalized community members. So Kreutz eliminated the option of a worker co-op.

Kreutz did not consider the ESOP model the right fit either, because employees must remain with ESOPs for a lengthy period of time to become vested in stock or retirement benefits, while many employees in the bakery and café industry have short retention periods. Also, the ESOP model is largely driven by the promise of stock gains and retirement benefits to employee stockholders, and this monetary motivation did not match Kreutz's hope to sustain a social mission-driven focus at Firebrand.

Thus, Kreutz believed the best way to continue to grow his bakery business would be to ensure professional management and outside investor interest in a steward-managed employee ownership trust. In so doing, he avoided the complicated process of an ESOP conversion. Firebrand incorporated as a perpetual purpose trust in August 2021. The entire process from start to completion took just eight months. Detailed worker engagement was not part of the conversion process, and it was only after completing the conversion, that Kreutz informed workers of the new Employee Ownership Trust model.



FIREBRAND EOT: CONVERSION PROCESS

- Started in 2020, assisted by law-firm specializing in trust law. Conversion completed in 8 months.
- Social purpose trust agreement establishes 5 member Trust Stewardship Committee: 3 from Firebrand (including company founder), 1 community member (a supportive foundation) and 1 independent member.
- Before conversion, founder Kreutz owned 100% of shares. After conversion, Firebrand Stewardship Trust owns 33% of shares, the founder (Kreutz) owns 30%, two social impact investment groups own 29%, and employees own 8%.
- Social mission and investor return is balanced through a profit structure in which "patient capital" investors receive 90% of the distributed profits until they have achieved 2X their initial investment. The remaining 10% of profits are distributed to employees. Once investors achieve 2X their initial investment, the profit structure is flipped and investors only receive 10% of profits, while the remaining 90% is distributed pro-rata based on ownership.
- As investors are redeemed, their original shares are bought back at original face value and allocated to the Firebrand Perpetual Trust.

"Our mission is to create a more just and equitable workplace, shared value, and thriving communities through the craft of baking. This concept of 'shared value' really resonated with me, and it aligns with steward ownership principles. How do we create a company where it's not a top-down system, where everyone adds value and the company returns that back to the employees. How can we make sure that all our stakeholders in the company actually win?"

If Firebrand is successful, our stakeholders (employees) are successful and everyone shares. How do we build that up? And then what does that mean? That could mean great wages, fully paid healthcare, and a good workplace. Maybe in a couple of years, we're helping out with housing assistance and we're leaning into other areas like childcare.

What does it mean for us to provide shared value to our staff? How do we build a culture and team where everyone is valued and thriving? These are things we focus on all the time, how can we get better and make Firebrand a better place. I want Firebrand to be like an old-school factory job, where you can build a life from it, you can buy a house, have retirement savings, build real wealth and skills that transfer out to the community."

-- From "An Interview with Matt Kreutz of Firebrand Artisanal Breads." Sustainable Food and Agriculture Perpetual Purpose Trust.

https://sustainablefoodandagtrust.com/updates-and-insights/an-interview-with-matt-kreutz-of-firebrand

Organically Grown Company: An Employee Ownership Trust

"OGG's Sustainable Food and Agriculture Perpetual Purpose Trust is committed to "quadruple-bottom-line leadership focused on people, planet, purpose and profit. This means we focus on positive economic, social and environmental impacts while maintaining our independence forever—never to be sold."

-From the OGC Website

As their website describes, Organically Grown Company (OGC) was founded in 1978, "by a group of hippies, small-scale farmers, activists, food-lovers and dreamers who believed that organic food and farming was the answer to healthy people and planet."

As the OCG founders approached retirement age, they sought an "exit with purpose." The founders wanted to sell their shares to fund their retirement but worried about the company's mission of supporting local farmers and organic farming, if outside investors bought a controlling interest in the stock.[1] OGC's leadership was concerned with the fact that their prior structure, an Employee Stock Ownership Plan (ESOP), governed by federal law (ERISA) that required the company to maximize stock value. This could have forced the sale of the company to an outside buyer who made a high offer. Additionally, OGC's leadership wanted the company to grow without growing impersonal or "selling out."[2] The founders decided that a business purpose trust was the perfect vehicle to preserve their mission and be rewarded for what they built.

[1] About Us, ORGANICALLY GROWN CO., https://www.organicgrown.com/about-ogc
[2] Ibid.

From the OGC Trust Agreeement

"The purpose of the trust established by this Agreement is to support the efforts of independent, Values-Aligned organizations (including, but not limited to, the Company) that advance Sustainable Agricultural Practices and food systems.".

This established purpose guaranteed a commitment to the founders' mission while also ensuring higher than industry average salaries, awarding over $165,000 in grants to mission-aligned partners, and raising over $50,000 for charity through sales by 2022.

See: Organically Grown Company. 2022 Benefit Report.

"OGC proudly stands as a purpose led and trust owned organization and Benefit Company dedicated to supporting organic agriculture while benefiting all our growers, customers, coworkers and communities.

By balancing the profit needed to support our mission and purpose, we show that a business can thrive while making a real difference for people and the planet. Bottom line, we get to put everything we have into growing the organic movement.

-- From the Organically Grown Company website

WORK WITH PURPOSE:

OGC CO-WORKER TESTIMONIALS

"I like my team a lot and I like working from an organization that's principle focused. It feels like a privilege to work here rather than somewhere with a traditional business model. I also really like produce. In Quality Assurance I see local varieties come through and I love the weird ones."
- Justin Dewan, OGC Quality Assurance Team Lead

"I"m proud to work for a mission driven company that actually walks the walk."
- Coworker Survey Comment

"Here at OGC, we do a lot to give back to the community. Also, the commitment to sustainability and supporting organic are beautiful things."
- Coworker Survey Comment

"OGC is making an effort to create a more diverse and equitable work culture."
- Coworker Survey Comment

All worker comments from the OGC company website: www.organicgrown.com/our-team

ORGANIC

OREGON'S EOT LAW SUPPORTS OGC'S MISSION-DRIVEN JOURNEY

OGC created its Sustainable Food and Agriculture Perpetual Purpose Trust (SFAPPT) in 2018 as an Oregon Benefit Company. By structuring the trust under Oregon law as a perpetual purpose trust, OGC removed the pressure to maximize short-term profits for shareholders under federal ESOP law, and guaranteed its mission could continue indefinitely. This goal was further enabled when Oregon, the company's home state, adopted UTC guidelines in 2019 to amend the Rule Against Perpetuities, allowing for a "Stewardship Trust" that can hold the assets of a business in perpetuity. In addition to its legally recognized perpetuity, the updated Oregon code allows a Stewardship Trust to avoid the potential juridical reduction in assets that threaten other types of non-charitable purpose trusts.

Oregon's new Stewardship Trust (ORS § 130.193(4)) provides an unambiguous legal structure, offering confidence to business owners looking for an alternative exit strategy. A Stewardship Trust may provide for Trust Committee representation from multiple stakeholder groups on the stewardship committee or may give control primarily or entirely to employees. Its flexible governance model empowers a stewardship committee to manage operations and ensure the trust's purposes are upheld, keeping control local and aligned with long-term community and employee interests.

This type of trust offers business owners a clear "exit with purpose" strategy, without fearing the sale of their company to an external buyer who may not prioritize local jobs or community welfare. As seen with OGC's founder were able to retire without worrying that their company legacy and values would be compromised by new ownership. By establishing a commitment to organic agriculture, together with an employee-centered purpose, retiring business owners could lock-in and grow their local economic impact, lift up their employees' prospects, and expand charitable donations to the community– embedding their values into broader social contexts indefinitely.


TRUST