



BUILDING MORE **ENGAGED**
AND **POWERFUL** COMMUNITIES

Worker Ownership: A Pathway to Strong Local Economies

Impact Brief

Center for Urban and
Regional Affairs (CURA)

UNIVERSITY OF MINNESOTA
Driven to DiscoverSM

Overview

We are at a critical moment in history. Wealth disparities across the country are at an all-time high, and in Minnesota growing racial and economic inequalities threaten our economic vitality. The income gap between families of color and white families in Minnesota is nearly double the national average. In 2010, the overall poverty rate in Minnesota was 11.6 percent, but it was 17.8 percent for Asians, 24.4 percent for Latinos, 37.2 percent for blacks, and 39.5 percent for American Indians. According to a recent Corporation for Enterprise Development (CFED) report, it will take the average African American family 228 years to amass the same level of wealth as the average European American family.¹

At the same time that the trend in our disparities threatens our economic vitality, the unprecedented wave of baby boomer retirements presents a great opportunity. Nationally, 66% of privately held businesses are owned by baby boomers, with 85% of owners having no succession plan.² This could result in the loss of billions in tax revenue, local ownership, countless jobs, and lead to family and community instability. Business succession however, could present an opportunity to accelerate wealth building, particularly in communities of color.

The strategy of converting businesses to worker cooperatives is gaining attention and traction around the country. The model holds great potential in expanding ownership opportunities beyond the traditional models of homeownership and entrepreneurship, to community wealth building strategies that promote local and broad based ownership.³

Methodology

To ascertain the scope of the impacts and opportunities for the Twin Cities region, Nexus Community Partners and the Center for Urban and Regional Affairs (CURA) at the University of Minnesota compiled an initial analysis based upon a methodology developed by Oakland, CA based Project Equity.

The first phase of the analysis included identifying which industries, in general, would be favorable to worker cooperative conversion. Two factors were used to select industries: percentage of workforce that is low-moderate income (LMI) and projected industry growth. Data for LMI was obtained from the Minnesota Department of Employment and Economic Development (DEED) and sorted by median wage. The bottom quintile, with median wages under \$15, was deemed “low to moderate” wages. When these industries were compared with DEED projections of industry growth from 2012-2022, one industry, Farming, Fishing, and Forestry Occupations, was removed since it was projected to experience negative growth.

¹ The Ever-Growing Gap. CFED and Institute for Policy Studies, Washington, DC. 2016.

² The Power of Worker Cooperatives. Trust for Conservation Innovation on behalf of Project Equity, 2016.

³ Community wealth building (CWB) is a place-based, systems approach to community economic development that ensures local and broad-based ownership; develops cooperative and other reinforcing economic enterprises; utilizes culturally-based economic models; invests in assets that are rooted locally; and engages the procurement power of institutional partners. CWB is grounded in the values of equity, mutuality and stewardship.

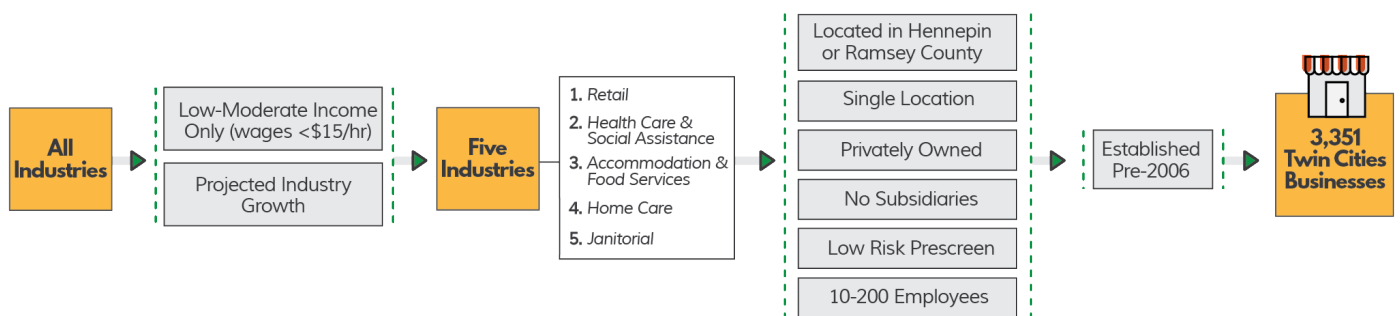
The following industries had varying levels of projected positive growth, and were moved forward to the next step of the analysis:

Industry	NAICS Code	Median Wage	Projected Growth
Retail	44-45	\$14.37	4.3%
Health Care and Social Assistance	62	\$14.60	20.6%
Accommodation and Food Services	72	\$9.48	6.8%
Home Care	812	\$11.42	23.9%
Janitorial	5617	\$12.55	9.2%

Using Mergent Intellect, a Dunn & Bradstreet business database company, the above industries were used to generate a list of candidate businesses for worker cooperative conversions in Hennepin & Ramsey counties.

Along with location and industry, the following criteria were also applied as filters:

Businesses were in a single location; privately owned; not subsidiaries; did not receive a high risk prescreen score; and businesses that employ between 10 and 200 people. Once the list was generated, it was further sorted to remove any businesses that were founded in 2006 or later, since the analysis was targeted at ownership by retirees.

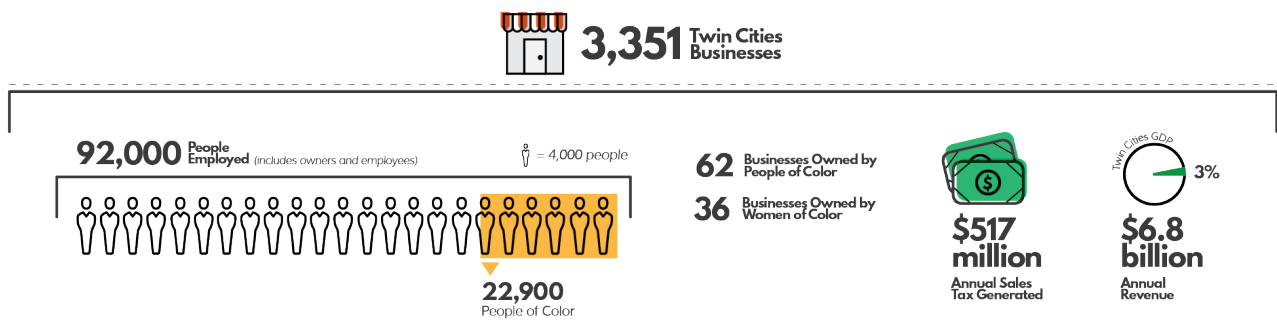


Results

The above analysis generated a list of 3,351 Twin Cities businesses that are candidates for worker cooperative conversion. The average business on the list is 31 years old, and employs 27.6 people. Together those businesses represent over 92,000 people, including both employees and owners, and have an aggregate annual fiscal impact of over \$6.8 billion dollars in annual revenue. At 3% of the gross domestic product of the Twin Cities, these businesses clearly make an important impact on the local economy. There is also a large governmental impact, as the sales tax generated by these businesses amounts to over \$517 million dollars per year.

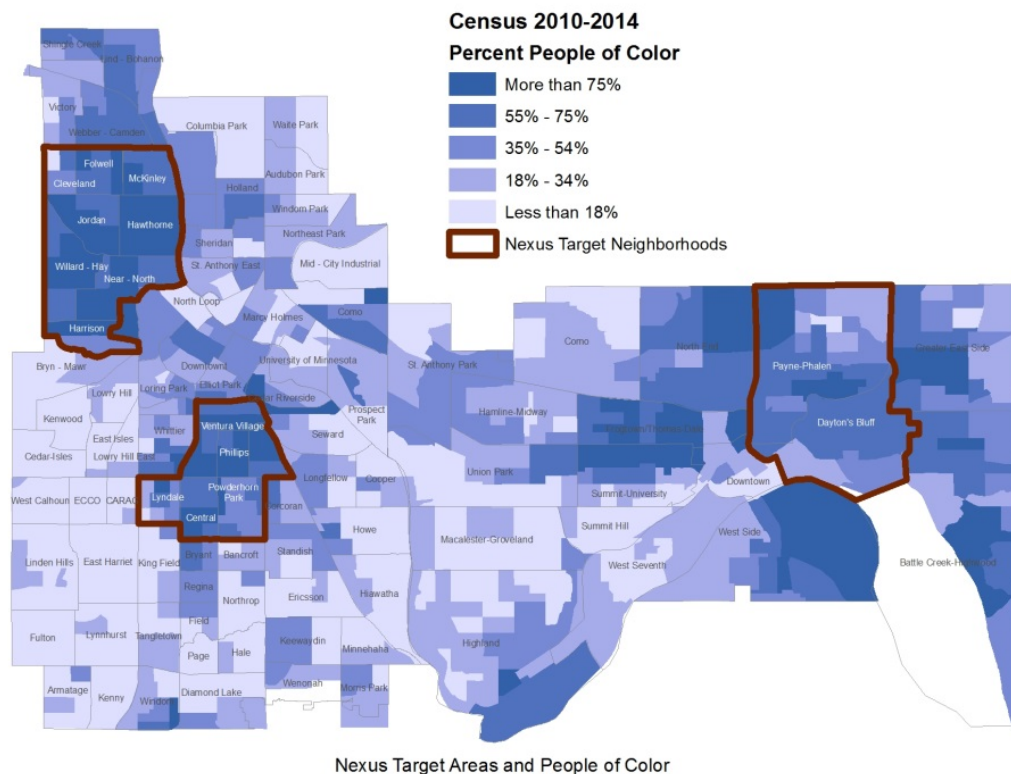
Using data collected by Economic Modeling Specialist International, which breaks out employment by industry and race, the analysis was able to generate a picture on the impact of identified businesses on the lives of people of color. Using the trends identified for Hennepin and Ramsey Counties for the industries examined in this

study, approximately 22,990 (25%) of the individuals employed by these businesses are people of color. Sixty two (1.8%) of the businesses are owned by people of color, and of those, 36 (1.1%) are owned by a woman of color.

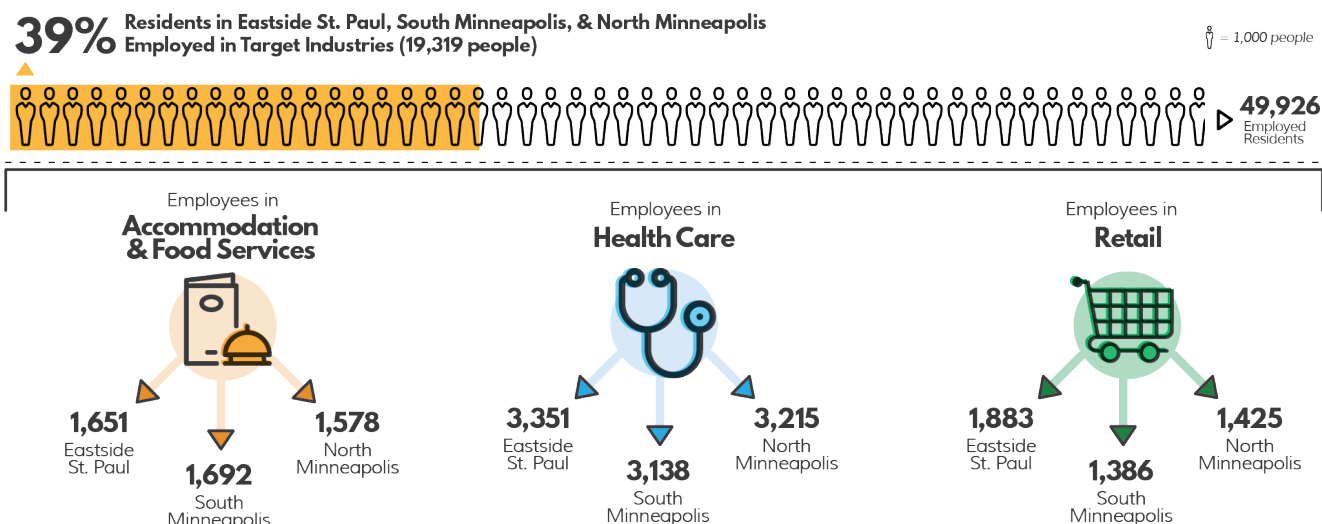


Local Impact

Of critical importance is the unintended effect that retiring business owners (and subsequent business closures) could have on low income communities of color in the Twin Cities. Using data from the State of Minnesota's Department of Employment and Economic Development (DEED) and the U.S. Census Bureau we are able to determine both the number of workers employed in each industry category, as well as some information about their demographics at very specific levels of geography. For this analysis we are using the neighborhoods in Minneapolis and St. Paul that are a best fit to Nexus' target areas (see map) located in North Minneapolis, a portion of South Minneapolis, and a portion of the Eastside of St. Paul.



As the following graphic shows, 39% of employed residents in these three neighborhoods work in three of the industries identified earlier as good candidates for conversion to worker owned cooperatives. In total this represents over 19,000 workers residing in low-moderate income neighborhoods whose jobs are both at risk, but also ripe for opportunity. The data also show that 2/3 of these workers earn less than \$40,000/yr. and almost 50% are people of color.



Business Closures

While it is incredibly difficult to estimate the extent to which the identified businesses are likely to transfer ownership or close, there are ways to estimate the current trend. MN DEED has aggregated records of businesses that closed in Hennepin and Ramsey Counties as recently as 2014. In the industries previously mentioned, 6,060 businesses closed in the five year period from 2009-2014, which resulted in 48,823 lost jobs. With this data, it's impossible to know how many of these businesses closed due to retirement and lack of succession plans, as there is no direct correlation between the numbers of years a business was in operation before it closed to the age of the business owner. However, based upon national trends, it is reasonable to assume that at least some of these closures reflect the early stages of a “silver tsunami” effect. It is also reasonable to assume that the data suggests great potential for conversions to worker ownership.

Worker Cooperatives

Cooperative business models, where the business is owned by its members, hold a significant place in the United States economy. The International Co-operative Alliance defines cooperatives as “an autonomous association of persons united voluntarily to meet common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises.”⁴ According to research conducted by the

⁴ <http://ica.coop/en/what-co-operative>

University of Wisconsin, there are roughly 30,000 cooperative businesses in the United States that collectively hold more than \$3 trillion in assets, \$652 billion in revenues and employ nearly one million people.⁵

While worker cooperatives comprise a small percentage of cooperatives, approximately 300-400 across the country,⁶ the model is gaining traction as a means to provide stable employment and wealth building opportunities for people of color and other underrepresented groups. Dr. Jessica Gordon Nembhard, an expert on African American cooperative economics states, “Worker-owned businesses offer economic security, income and wealth generation, economic participation to employees, as well as providing communities with meaningful and decent jobs.”⁷ The model also creates stronger businesses. According to Alison Lingane, Co-founder of Project Equity, worker-owned cooperatives are a way for businesses to retain talented employees and increase a business’ efficiency and financial performance.⁸

Recommendations

Groups across the country are building a national movement to create an ecosystem that takes the worker cooperative model to scale. Nexus believes the model holds great potential to build community wealth in the Twin Cities. To create an infrastructure locally, a number of tangible steps can be taken:

- Expand opportunities for education, training and technical assistance for the creation of worker cooperatives with a focus on resources that are grounded in culturally based best practices.
- Work with DEED to develop targeted data tools to track, measure and identify businesses with the potential for conversion;
- Build cross sector partnerships between community and economic development organizations, cooperative practitioners, CDFI’s and other financial institutions, public and private sector representatives, anchor institutions and academia to develop a plan around an ecosystem framework;
- Develop cooperative friendly policies that can be incorporated into the Workforce Investment and Opportunities Act (WIOA) state plan; and
- Develop policies that work towards a specific percentage of public procurement be directed at cooperative businesses.

As the local analysis highlights, the wave of business closures related to retiring baby boomers could have significant impacts on our economy. Worker owned business models, including worker cooperatives, provide one solution to reverse the rising tide of racial disparities and create pathways to strong local economies.

⁵ Steve Deller, Ann Hoyt, Brent Hueth and Reka Sundaram-Stukel, *Research on the Economic Impacts of Cooperatives*, Madison, WI: University of Wisconsin Center for Cooperatives, March 2009.

⁶ US Federation of Worker Cooperatives. <https://usworker.coop/what-is-a-worker-cooperative/>

⁷ Jessica Gordon Nembhard, *Collective Courage: A History of African American Cooperative Thought and Practice*, University Park, PA. Pennsylvania State Press, 2014.

⁸ Alison Lingane, Shannon Rieger “Case Studies: Business Conversions to Worker Cooperatives, Project Equity, April 2015.

