



The Cooperative/ESOP Hybrid: The Best of Both!

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Sun Light & Power designs, installs, and maintains commercial solar panels and solar thermal systems. They serve commercial, nonprofit, municipal, and residential clients, with an emphasis on the affordable housing sector.

The Mission of Sun Light & Power is to create a living environment that serves people's intrinsic needs, supports the human spirit and preserves the planet's resources for future generations.



A Certified Benefit Corporation



The Founder

Gary Gerber

Graduated from Berkeley
in 1975 with degree in
mechanical engineering



Some History



The Early Years

1976: Disco is king!

- Founding partnership
- Early unsuccessful effort to operate as a “collective”
 - Gary is last man standing



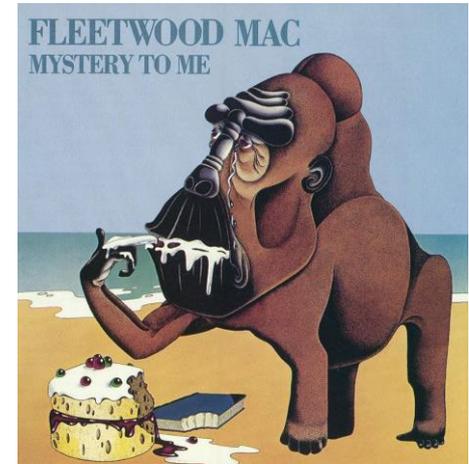
2016: Investigating Employee Ownership

What should happen with the company when Gary retires?

Everyone wants it to be employee-owned.

But how?

- Namaste Cooperative
- ESOP



Why Employee Ownership Matters



What Are They?

- An ESOP is an arrangement that allows the employees to own the **corporation** they work for.
 - Structured as a retirement plan, so the corporation's shares are held in a retirement trust for the employees.
 - Protected by the “ERISA” laws and the DOL.
- A worker cooperative is form of business that is owned and controlled by its employees.
 - Employees make a purchase investment in shares, and have their investment returned when they leave.

Features of the Cooperative

- Cooperative rules provide for direct democratic control of the company by the employee-owners
 - Coop members elect the governing board on a one-person, one-vote basis
- But ... company profits are taxed, banks are skeptical
 - If profits distributed to employee-owners, they pay the taxes
 - If kept by the company, it pays the taxes
 - At California tax rates, that means losing 40% of your earnings to taxes

A Key Difference in Practice

Co-op employees get a paycheck, sometimes a profit-share bonus.
When they leave the co-op, they get their small investment returned.

ESOP employees get a paycheck, sometimes a profit-share bonus.
When they leave the ESOP, they receive the cash value of their ownership in the corporation – which can be a very, very large sum!

ESOPs give employees the economic benefits that only the 1% usually get in our American economy.



Features of the ESOP

- Employees don't have to raise the money to fund founding owner's succession
- **Big** tax benefits:
 - 100% ESOP-owned company can operate free of income taxes on profits. A tax-exempt business!
- But ... corporate governance rules may give employee-owners little control of their company
 - ESOP company is not required to give employees a role in electing the board of directors
 - And if they do, it is typically on a one-share, one-vote basis.

The Sun Power & Light Solution: the “B/ESOP/erative”



The B/ESOP/erative Solution

1. We used an ESOP to structure the new version of the company
 - So it operates tax-free
2. The shares of stock purchased by the ESOP were divided among all employees, approximately equally, but with some additional credit based on years with the company and salary level.



The B/ESOP/erative Solution

3. ESOPs *can* be written to give the employee-owners the right to elect the board of directors. We did that.
4. ESOPs *can* be written to provide for voting on a one-participant, one-vote basis. We did that.
5. Company bylaws were revised to provide for a category of employee-owner to be known as a **cooperative member**.

Becoming a Cooperative Member

- Must have been employed at SLP for one year
- Must state interest in becoming a member
- Complete the required education:
 - ESOP details
 - Financial literacy
 - What it means to become a member
 - Entrepreneurial Operating System



The B/ESOP/erative Solution

6. Coop members serve as the Board of Directors nominating committee, selecting candidates to appear on the ballot for election to the company's board of directors. Ballots then go to all employee-owners for their vote.



The Result

- The company operates tax-free
- The employee-owners have real control over their company
- ... And, the company remains a B corp, so Sun Light & Power now calls itself a

B/ESOP/erative

Benefits of Being an Owner

Money, Voice, Information & Community

- Share in the value of the company through member bonuses and appreciating stock value
- People get full access to company information, including financial performance data
- Increased involvement and say in different levels of decision-making
- An even greater sense of community - “We’re all in it together”

Questions?

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