



METROPOLITAN HOUSING AND COMMUNITIES POLICY CENTER

Employee Ownership NYC: Cultivating Diverse Funding Streams

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Employee ownership and cooperative business strategies are part of New York City’s efforts to realize a more inclusive and resilient economy. Through proof-of-concept initiatives and innovative program models, New York City agencies and community partners collaborate to deploy best practices that can accelerate employee-owned businesses at scale. This includes increasing awareness of employee-owned and cooperative business models, investing in sector-specific programs, and leveraging public funding and policy. This work builds on long-standing city funding to the Worker Cooperative Business Development Initiative; leverages city, state, and federal investments in economic, business, and workforce development; and innovates with catalytic funding from philanthropy. As New York City continues to drive economic recovery from the pandemic and to address the racial wealth gap, these strategies and lessons learned will help assist businesses and owners and provide insights for further innovation.

This is the fourth brief in a series of five documenting key elements of New York City’s efforts to support employee ownership. The other case studies focus on model design and implementation partners, messaging and value propositions, municipal policy supports for employee ownership, and a logic model of program activities and outcomes. To inform this series, we interviewed city government staff, funders, and program partners to learn about the initiative’s structure and impact. In each brief, we focus on lessons other localities can learn from their emerging insights.

Local governments are increasingly looking to employee ownership as a strategy to sustain local businesses, anchor economic development, and address the racial wealth gap. By tapping diverse funding streams at the local, state, and federal levels, cities can work creatively to realize this opportunity. This case study focuses on New York City’s approach to catalyzing employee ownership and offers insights for other states and municipalities.

Employee Ownership NYC Funding Strategy

Through the Employee Ownership NYC initiative, New York City set out to increase the number, sizes, and competitiveness of employee-owned businesses and to pioneer new models for inclusive economic development. This required designing and funding new programs as well as adapting other programs to

reach their intended policy goals. The initiative pursued both city resources and philanthropic funding as a flexible funding source to design and pilot projects.

This effort builds on long-standing city funding to the Worker Cooperative Business Development Initiative, which has provided entrepreneurship services to businesses and workers, built capacity among cooperative development organizations, and piloted cooperative ownership models in New York City. Since 2014, the New York City Council has supported a network of cooperative development organizations that provide technical assistance, educational support, and financing to existing and start-up cooperatives in a range of sectors. In fiscal year 2020, 12 organizations received \$3.6 million to deliver these services (New York City Department of Small Business Services 2020). The technical assistance provided to businesses converting to employee ownership—valued at up to \$10,000 for each business accessing those services—were delivered for free through this funding commitment.

Expanding support for employee ownership required partnerships across city agencies and business service organizations that were supported by new and existing funding agreements. Two full-time staff and a fellow oversaw strategy and policy, partnerships, and program design for Employee Ownership NYC. The mayoral administration worked with staff at the Department of Small Business Services, the Mayor's Office of Workforce Development, and the Economic Development Corporation, as well as with technical assistance organizations, to design and operationalize the initiative. Staff teams that oversaw industry-focused workforce intermediaries contributed to sectoral pilot program design. Other agencies oversaw pilot contracts to technical assistance providers, and still other staff helped monitor program outcomes to inform program growth and adaptation.

Employee Ownership NYC provided pilot funding to community-based business support organizations to advance key strategies, while also tapping into existing funds. For example, Owner to Owners—a hotline to help business owners explore selling to employees—leveraged money provided through the Worker Cooperative Business Development Initiative, which funds cooperative development technical assistance. The initiative used additional philanthropic funding to support strategic messaging, vastly expanded outreach, and data management and analysis. Employee Ownership NYC designed Owner to Owners to integrate with the larger citywide Business Solutions Center network so that all small-business services could include employee ownership conversion.

Some Employee Ownership NYC pilot funding focused on specific sectors. This enabled the development of new cooperative development models that account for sectoral nuance and policy levers. For example, in the home health care sector, regulatory shifts have made it challenging for small firms to operate. Employee ownership will not necessarily solve these challenges. However, a

cooperative strategy that connects many small firms offers a path for them to grow larger and, in turn, more easily overcome regulatory burden; improve job quality and ownership opportunities for workers; and serve as a platform for increasing other program investments. The building retrofit sector offers a similar theory of change. Existing HVAC contractors face barriers to tapping the emerging market created by New York City's building emissions regulations. A pilot will work to support technology application and training at scale by operating a cooperative intermediary across these firms. This, too, will serve as a platform for large-scale investments in this sector. Funding for each sector pilot covered roughly one year of a staff-led project.

Leveraging Other Sources of Funding

Employee ownership can be incorporated into existing programs for small businesses, economic development funds, and workforce development to accommodate the specific needs of employee-owned businesses. For example, city staff worked to connect employee-owned businesses to Customized Training Grants to support advanced worker trainings for operating worker cooperatives. This program uses city funding as well as federal dollars from the Workforce Innovation and Opportunity Act. Additionally, state-level small-business support funds, economic development funds, and workforce development funds could go toward funding a local employee ownership program. Within the context of employee ownership as a succession-planning strategy, other municipalities may be able to make the case to their state Workforce Innovation and Opportunity Act leads to use layoff aversion dollars for such a program. Similarly, US Small Business Administration dollars can go toward employee ownership programs that focus on small businesses' conversions to worker cooperatives.

Leveraging Philanthropy

Philanthropy can serve as a flexible source of funds for cities and counties. Private philanthropy represents an especially important source of funding for design and start-up costs; pilot programs; collateral development; and convening, measurement, and learning efforts. But philanthropy can play an even broader role. For example, foundation money could provide competitive grants to businesses or provide lenders with funds for loan loss reserves, interest rate buy-downs, or other subsidies.

New York City was able to attract philanthropic funding to develop new, innovative program models. The Citi Foundation and Open Society Foundations played a supporting role in helping fund the initiative, which aligned with their goals of addressing the racial wealth gap. Employee Ownership NYC found that philanthropies have interest in helping bolster cooperative business models as a mechanism

to mitigate wealth and racial inequality and as an alternative to corporate governance and control. Furthermore, philanthropy can beget philanthropy, as funding partners encourage other supporters to become involved and add legitimacy and visibility to the effort.

Challenges to acquiring private funding remain. Private grants may come in the form of less sustainable one-time grants or include burdensome administrative or reporting requirements. Private funds also tend to go to one-time efforts or direct services; ongoing investments in institution building can be more difficult to secure. Philanthropic partner priorities also can shift well before the ecosystem-building work is done. For these reasons, employee ownership initiatives will need to consider how to strategically and creatively use philanthropy, given funders' different imperatives, while also integrating program funding streams into municipalities' annual budgets.

Cost Factors in Replication

Bolstering the ecosystem of actors needed to expand employee ownership locally requires dedicated, robust, and sustained resources. At the same time, city and county budgets are constrained, and federal and state governments are providing fewer resources. Over the past four decades, federal and state financing dropped from 31 to 16 percent of city revenue and from 42 to 29 percent of county revenue (Randall 2020).

As other jurisdictions consider replicating the Employee Ownership NYC model, they need to consider a few important factors. First, the initiative relied on fairly well-established infrastructure and funding for small-business services. It also included strong local cooperative development technical assistance organizations, meaning that the initiative did not need to provide start-up costs to the degree that other cities may need to. Second, New York City is the nation's largest city. As such, it is a very expensive media market, and staff salaries are higher than in many other parts of the country. The resources and funding required will vary depending on market sizes and expenses in other jurisdictions.

Looking Forward

Worker-owned cooperatives are more likely to start and see successful growth within an employee ownership-friendly ecosystem. (Frequently cited examples include Mondragon in Spain or Emilia-Romagna in Italy.) Intermediary business support organizations play a central role in building such an ecosystem. Employee Ownership NYC funds, for instance, went directly to these community-based organizations rather than to small businesses. Regardless of the specific program elements, a municipality seeking to build an employee ownership initiative will need entrepreneurial leadership

from the ultimate beneficiaries of employee ownership—the employees and owners themselves—to secure multiple funding streams. In such ecosystems, worker cooperative employees can support fellow worker-owners at different organizations by patronizing their businesses; access quasi-social services through their own organizations, such as company-offered child care and housing; and benefit from a municipal policy environment that promotes rather than stunts worker cooperatives' growth.

Building such an ecosystem requires significant funding as well as a strategic shift toward worker cooperatives as a workable business model across several sectors. This ecosystem development work will benefit from clear and robust support from local government and philanthropic partners.

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