



FEDERATION OF PROTESTANT WELFARE AGENCIES

TESTIMONY

Oversight Hearing:

“Worker Cooperatives – Is This A Model That Can Lift Families Out of Poverty?”

Presented to

New York City Council, Committee on Community Development
Hon. Maria Carmen del Arroyo, Chair

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Opening

Good morning, Chairwoman Arroyo, and the distinguished members of the New York City Council Committee on Community Development. On behalf of Jennifer Jones Austin, Chief Executive Officer of the Federation of Protestant Welfare Agencies (FPWA), we want to thank you for this opportunity to testify on the issue of worker cooperatives as an economic combatant against poverty and unemployment for working families in New York City. FPWA also recognizes Chairwoman Arroyo's longstanding leadership, working with community residents, organizations and leaders, to address a variety of issues related to community development and much needed services for residents of the South Bronx.

Summary

FPWA advocates on behalf of vulnerable New Yorkers to ensure that they have the economic means to support themselves and their families. Our network of human service organizations and churches operate over 1,200 programs throughout the New York City metro area. Together, we serve over 1.5 million low-income New Yorkers of all ages, ethnicities and denominations each year. With many of our member organizations serving low-income communities, FPWA strongly urges that worker cooperatives play a key role in the City's long-term community development strategy to lift families out of poverty and unemployment. FPWA has developed recommendations, which we will outline here, that the new Mayoral administration and City Council could implement to support existing worker cooperatives and encourage the advancement of more.

Worker Cooperatives for New York City

Worker cooperatives are businesses owned and managed democratically by the employees. Worker cooperative businesses produce an array of economic benefits for low-income communities and effectively reduce economic disparity on a long-term basis. They tend to provide higher wages and better economic benefits than other small businesses. Furthermore, worker ownership provides workers with increased control over their work environment, reduced incidents of workplace abuse, and increased job security. Worker cooperatives are also less vulnerable to economic shocks

Across the country, there are community groups, progressive think-tanks and elected officials seeking to integrate worker cooperatives into city-wide community development and workforce development policy. Cities like Madison, Wisconsin are integrating worker cooperatives into their business resources and planning department, while Reading, Pennsylvania is funding a worker cooperatives support center. In Richmond, California, the city is funding a cooperative development initiative that includes city support for cooperatives and funding a professional cooperative developer. Most ambitiously, the city of Jackson, Mississippi is embracing financial support for, and sourcing from, worker cooperatives as a means rooting city supported jobs, and city dollars in the community. They are engaging in policy efforts to establish a worker

cooperative-friendly business environment as a means of creating economic security, jobs, and livable wages to help lift families out of poverty in their cities.

The City of New York too can be a leader nationally in this regard. New York City's economy is larger than Switzerland's, a size that means the city has potential to set new de facto standards. There is no other city in the United States where the development of significant worker cooperative policies would affect such a large amount the unemployed or underemployed residents. If achieved, new policies that support worker cooperatives in New York City would not only be the first of its kind, but also serve as a model for other cities in the United States.

Economic Benefits of Worker Cooperatives

For the last dozen years, New York City has encountered persistent economic barriers that have trapped more than one out of five New Yorkers in poverty. Minimum wage and low-wage jobs do not provide enough economic boosts to lift these New Yorkers out of poverty. Business hiring trends have only added to the growing ranks of low-wage workers and economic development programs have made insufficient headway in reducing these ranks. Recent job growth has been concentrated in low-wage industries, a factor that added to income inequality in the city. When the recession hit, most of the jobs that were lost were full-time and many of the jobs that are being created now are part-time and low-wage. Although the unemployment level in New York City has dropped in recent months, it was still at an astoundingly high 8.1% as of January 2014, leaving still hundreds of thousands of residents without work.

Given this reality, New York City's efforts to reduce poverty, unemployment and inequality should not just be an opportunity for realignment, but for reinvestment. The development of worker cooperatives in New York City should be part of a new long-term strategy to address inequality. There are examples of low-wage workers in New York City who have formed worker cooperatives with the help of non-profits and have seen their hourly wages increase from \$10 to \$25 per hour within just a few years.

Within four years of starting their house cleaning business, *Sí Se Puede's* worker-owners, many of whom did not speak fluent English, tripled their wages to as much as \$25-an-hour. In 2011, the company with 37 worker-owners had grossed \$1.6 million, with more than 1,500 customers on its house-cleaning client list, had a group income of approximately \$600,000 a year, and monthly income for the total cooperative reached between \$50,000 and \$60,000 a month. To achieve these economic outcomes, "one of the key principles of *Si Se Puede!* is that worker-owners receive 100% pay for their work – there are no placement fees and no organizational middlemen".

Of course, the most significant example of the economic success of worker-cooperatives can be found in the Bronx with Cooperative Home Care Associates, which, at 25-years old, is the first worker-owned home care cooperative in the U.S. and is currently the largest worker cooperative in the country, with over 2,000 members. CHCA is also an example of how worker cooperatives

not only create level pay structures, but also help worker-owners build wealth and equity. The company pays “annual dividends sometimes 25% of initial equity investment.” Worker-members can often borrow off of their membership share, they receive a payout of their membership share at retirement or whenever they leave the firm, and their membership share will also often receive a low fixed-interest dividend.

Current State of New York City Worker Cooperatives

New York City’s worker cooperative movement today has a host of 23 businesses in various sectors ranging from healthcare to tech consultation to home cleaning. Additionally, the city also has a central worker cooperative organization working to solidify the community – as well as a support system for worker cooperative including incubators; technical and legal assistance services; and a limited amount of public and private funding in recent years. It is these services that make up the institutional support of worker cooperatives.

Yet, since government support for worker cooperatives is a relatively new issue in New York City, this effort has not received a substantial amount of attention as an economic development strategy. Consequently, worker cooperative policy is non-existent in New York City. As a result, public and private funding, legal and technical assistance, incubators, and other resources for expanding the cooperative movement are limited in availability. This lack of public support and policy misalignment has created a barrier to the development of worker cooperatives.

Policy Recommendations

While the benefits of worker cooperatives are clear, they are widely unknown and underutilized in the ongoing and ever present fight against poverty and unemployment. One decisive action the Mayor can take is issuing a proclamation, taking a loud and public stance on its support for worker cooperatives, and raising awareness of their benefits. A formal city proclamation designating one week a year dedicated to worker cooperatives with a corresponding series of city-organized events and conferences during that week would be an effective statement.

The another key to success for worker cooperatives lies in connecting cooperatives to public funding that already exists, and targeting the support of city agencies already in place. New York City has long been defined by an entrepreneurial spirit and already makes assisting small businesses part of public policy through the New York City Economic Development Corporation (NYCEDC) and the New York City Department of Small Business Services (SBS). By providing advice, regulatory assistance, and funding tools specifically tailored to worker cooperatives, NYCEDC and SBS could play a larger role in growing the number of cooperatives in New York City.

FPWA proposes that the NYCEDC take on worker cooperatives as a “functional horizontal” sector itself across different industries, similar to its focus on entrepreneurship. NYCEDC could provide assistance and advice on the identification of business creation opportunities for worker

cooperative, and the development of feasibility studies and business plans for worker cooperatives. To achieve this, NYCEDC should conduct a feasibility study on business markets to find which industries offer the best potential for the growth of worker cooperatives. NYCEDC could target worker cooperatives for those industries with its various entrepreneurial and capital loan programs. In addition, the NYCEDC currently provides grants and incentives to businesses so as to attract investment dollars. It can expand the criteria to include worker cooperatives. NYCEDC could also develop sub-contracting opportunities for worker cooperative businesses on the city's infrastructure development projects, such as construction projects.

In regard to SBS, FPWA proposes that it could include the worker cooperative model as a part of the curriculum that SBS uses for training individuals looking to start or grow their own businesses. SBS can also help connect cooperatives, which typically have trouble obtaining traditional bank loans, with alternative lenders such as credit unions or non-profit organizations that provide investment capital. Such lenders can be a fixture of the agency's portfolio. Specifically, these loans could be used for a variety of purposes, including: property and equipment acquisition, working capital, and business expansion. SBS should also promote procurement opportunities to prioritize existing and emerging worker-cooperatives. Furthermore, SBS should provide training and development opportunities to worker cooperatives that would allow them to bid for city contracts, such as how they might respond to Request for Proposals (RFPs) and submit proposals. Finally, in relation to SBS, it should provide grant funding for the technical assistance providers to incubate new worker cooperatives and to increase the survival rate of worker cooperative businesses.

Worker Cooperatives Workforce Development Programs

Most importantly, as new Mayoral administration revamps its workforce development plans and policies, FPWA urges the city to include worker cooperatives as a useful tool to achieve broader goals in the workforce system. Given the scale of workforce funding already being allocated to New York City, it would not be a far stretch to retool existing programs to make a large impact.

In light of the employment generation capacity of worker cooperatives, it becomes compelling to consider ways and means of utilizing worker cooperatives to meeting the workforce development challenges facing New York City. In this regard, an important consideration is how the employment creation impact of worker cooperatives can be scaled up in order to generate new job opportunities. FPWA suggests the following workforce development proposals:

- 1) Creating a city program to help unemployed people operating in the informal economy (businesses not paying taxes) to start formal worker cooperative businesses.
- 2) Having new city workforce development contracts include provisions that permit job placement for unemployed persons in a worker cooperative as an approved placement opportunity.
- 3) Having new city workforce development contracts should provide funding for capacity building, industry skills training, and resource development for worker

cooperatives which include persons that been chronically unemployed. In regards to the various city agencies funding workforce development programs, these programs should partner with cooperative incubators to lend guidance and expertise to cooperatives, refer workers to cooperative incubators, or even become incubators themselves. Such a partnership can direct more workers and resources to the cooperative sector.

In order to better picture how these programs might look in the real world, it is helpful to provide a walk through how typical participant might go from a workforce development program to being employed long-term at a worker cooperative.

First, it would be necessary to provide participants with actual training. Program participants could be connected using government funding to worker cooperative technical support organizations, which provide “bottom-up” support in building the technical skills and educational levels of potential coop-owners, and in helping individuals to decide what type of cooperative they might form, and what kind of business plan, management style and operating rules they want to follow. These programs are also designed to be participant driven, providing a more self-determined pathway toward skill development, employment, careers, etc., than is available to job seekers within job center programs.

In one example, five or so years ago, the Center for Family Life in Brooklyn was running a traditional employment center, helping people prepare resumes and go on job interviews. As the economy began to get worse, staff noticed that it was getting harder and harder for people with language barriers or undocumented status to find work. The staff developed a 10 week educational program to prepare workers for their new business, including training in customer service, marketing, cleaning skills/products, and the challenges of democratic business governance, for women that would attend an ESL class at the nonprofit and became interested in worker cooperatives. The women later went on to form what is now Si Se Puede, a house cleaning coop.

In another model, technical support organization could place a program participant into an existing worker cooperative. As an example, Arizmendi Bakery in San Francisco, California has grown several worker cooperatives of bakeries. They recruit workers- including unemployed and underemployed people- during renovations about six months before the anticipated opening the bakery. The recruiting committee is made up of veteran members of existing bakeries. For the first months, the new workers are placed in internships at the existing bakeries. During this time, the workers learn to do marketing, establish relationships with vendors, and prepare other aspects of the startup. The training team is made up of bakers from the existing member businesses. These bakers will work part-time at their home bakery and part-time in the new development. The trainers oversee new members' work, working alongside of them for as long as six months.

These models are just two examples of many success stories showing how worker cooperatives transformed and empowered the lives of ordinary unemployed and underemployed people who had taken the initiative to create or become part of their own businesses. They provide examples of how workforce funding could be utilized as a catalyst to grow worker cooperatives.

Closing

While worker cooperatives in and of themselves are not a panacea to economic distress, they are a substantial step in the right direction. In short, the development of worker cooperatives in New York City should be part of a long-term community development strategy to address inequality. FPWA applauds Chairwomen Arroyo and the members of the Community Development Committee for understanding the importance of public input on this discussion of worker cooperatives as a model to lift families out of poverty, by inviting our testimony at today's oversight hearing. We are grateful for the opportunity to submit this testimony, and would be pleased to provide whatever additional information you may require.