REPORT OF THE
SECRETARY OF ADMINISTRATION
SECRETARY OF FINANCE
DEPARTMENT OF PLANNING AND BUDGET AND THE
COMMONWEALTH COMPETITION COUNCIL

ESTABLISHING AN EMPLOYEE STOCK OWNERSHIP (ESOP) INFORMATION AND RESOURCE SERVICE WITHIN THE EXECUTIVE BRANCH OF GOVERNMENT

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 10

COMMONWEALTH OF VIRGINIA
RICHMOND
1999

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) INFORMATION AND RESOURCE SERVICE WITHIN THE EXECUTIVE BRANCH

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COMMONWEALTH of VIRGINIA

Office of the Governor

James S. Gilmore, III
Governor

G. Bryan Slater
Secretary of Administration

November 20, 1998

TO: The Honorable James S. Gilmore, III
and
The General Assembly of Virginia

The report contained herein is pursuant to "Item 53.B" of the 1998 Amendments to the 1998 Appropriation Act. The Item requested the Secretary of Administration, in conjunction with the Commonwealth Competition Council, the Department of Planning and Budget, and the Secretary of Finance, to study the necessary resources, staffing, and other requirements, including the need for appropriate legislation, to establish an employee stock ownership plan (ESOP) information and resource center within the Executive Department. Due to the nature of this study, the Department of Business Assistance and the Virginia Employment Commission were asked to participate.

This report constitutes a summary of the growth of employee stock ownership plans (ESOPs) in the United States; the value of ESOPs as a function of the Commonwealth's economic development program; a summary of various programs in other states that support employee ownership as a matter of public policy; recommended components supporting an ESOP program for the Commonwealth; and recommendations for the staffing, funding, and the executive branch department that should initiate a two year pilot program to establish an employee stock ownership (ESOP) information and resource service.

Also included in this report is a summary of important and essential research data, major federal and state legislation pertaining to ESOPs, and the key organizations supporting the implementation and development of ESOPs. We are grateful to the organizations and the participants that assisted in this study. Much of the information was gathered from The ESOP Association; the Empire State Development Corporation; the Foundation for Enterprise Development; the National Center for Employee Ownership; the Ohio Employee Ownership Center; and the Virginia Employment Commission.

In compliance with "Item 53.B" of the 1998 Amendments to the 1998 Appropriation Act, this report of the findings and recommendations is submitted to the Governor and the 1999 General Assembly.

Respectfully Submitted,

G. Bryan Slater
Secretary of Administration

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EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) INFORMATION AND RESOURCE SERVICE WITHIN THE EXECUTIVE BRANCH

EXECUTIVE SUMMARY

This report is the culmination of a series of events that was initiated with the 1997 General Assembly. The 1997 General Assembly approved Senate Joint Resolution No. 284 requesting the Secretary of Administration, in cooperation with the Commonwealth Competition Council, to study methods to privatize appropriate state government functions through the development and promotion of employee stock ownership plans, commonly known as ESOPs. These plans enable employees to obtain a substantial ownership stake in the company where they work.

The Secretary of Administration and the Commonwealth Competition Council issued their report, Senate Document No.12 (1998), on December 15, 1997 to the Governor and the 1998 General Assembly. The report contained two primary recommendations:

- Conduct pre-assessment analyses on selected state functions that may be candidates for an ESOP privatization. This recommendation was fulfilled with a report to the Commonwealth Competition Council on September 14,1998. The report, "Employee Stock Ownership Plan (ESOP) Pre-Assessments" identified three major state functions that are potential successful ESOP implementation opportunities.

- Consideration should be given by the Governor and the General Assembly to enact legislation for funding to support and assist current ESOP companies and to promote the creation of new ESOP companies in both the private and public sectors. This ownership transition service function should be assigned to an appropriate state agency. The mission of this service and state agency should be to promote employee participation and stock ownership by providing information, education, and technical services to employee groups and business owners and to generate awareness of the concept with the general public.

This second recommendation was supported by the Governor and the 1998 General Assembly in the form of "Item 53.B" in the Appropriation Act requesting the Secretary of Administration, in conjunction with the Commonwealth Competition Council, the Department of Planning and Budget, and the Secretary of Finance to study the necessary resources, staffing, and other requirements, including the need for appropriate legislation, to establish an employee stock ownership (ESOP) information and resource service within the Executive Department, and to report the findings and recommendations to the Governor and the 1999 General Assembly. This report fulfills the requirements of "Item 53.B" of the Appropriation Act.

The support for ESOPs also took another form during the 1998 General Assembly session. Senate Joint Resolution No.103 was unanimously approved by the General Assembly expressing its support for ESOPs as an effective and viable privatization method to provide state and local government services and functions to the citizens of the Commonwealth.

ESOPs and ESOP-owned companies are a powerful and vital force in both the national and state economies. The National Center for Employee Ownership reports that since 1975, the number of ESOP-owned companies has grown from 2,000 to over 11,000 and the number of employees in ESOP companies is approaching 11 million.

Recent studies by the National Center for Employee Ownership reveal that when ownership and participative management are combined, substantial gains result. A comprehensive study in Ohio reported that ESOP companies did exceptionally well in generating jobs.

The ESOP movement enjoys strong Congressional support. The Employee Retirement Income Security Act (ERISA) of 1974, as amended, is the enabling legislation which gave ESOPs their specific statutory framework. Since 1974, federal legislation has provided ESOPs with additional tax and incentive benefits.

Sixteen states have enacted legislation or implemented programs to foster the ESOP movement in their respective states. Most of these programs are administered by the state's Department of Economic Development.

The 1998-2000 Executive Budget of the Commonwealth of Virginia states that:

> **"The Department of Business Assistance was created by the 1996 General Assembly. The department is responsible for existing industry development, workforce services, small business development, and financial services. These functions were previously carried out by the Department of Economic Development. The department leads the effort to enhance the relationship between the state and existing Virginia businesses by providing a *single point of contact* for state services. A business call program serves as the core information-gathering mechanism to discover how the state can serve its existing business community. The department works closely with the entire Virginia business community to resolve problems and issues related to state government, provide access to state programs and services, and to generally improve the overall business climate in the state."**

Conclusion

The Commonwealth enjoys a national reputation for business and economic development, business retention, and a favorable business environment. Assisting current ESOP companies and promoting the creation of new ESOP companies in the private sector should be an important element in the advancement of the state's economic development goals, particularly when economic dislocation is apparent and worker assistance is needed. By providing practical information and assistance to help organizations implement equity-based programs, this service will enhance the economic and social development in the Commonwealth by facilitating business succession and expanding ownership opportunities for the workforce.

This report identifies federal funding available from the "Economic Dislocation and Worker Adjustment Assistance Act" (Public Law 100-418, Title VI, Subtitle D) which amended Title III of the Job Training Partnership Act. The federal law states that "*In a situation involving an impending permanent closure or substantial layoff, a state may provide funds, where other public or private sources are not expeditiously available, for a preliminary assessment of the advisability of conducting a comprehensive study exploring the feasibility of having a company or group, including the workers, purchase the plant and continue it in operation.*" The Virginia Employment Commission has a "Dislocated Worker Unit" which receives federal funds from the Act. These federal funds are utilized by other states to assist companies in conducting ESOP pre-feasibility studies. Due to the structure and legislation currently in place, this report does not contain any recommendation for the need to enact any additional legislation.

Recommendations

The major function of the Department of Business Assistance is to lead the effort to enhance the relationship between the state and existing Virginia businesses by providing a single point of contact for state services. It is recommended that the Department of Business Assistance be assigned the responsibility to implement an employee stock ownership plan (ESOP) information and resource service.

The mission of this service should be to promote employee participation and stock ownership by providing information, education, and technical services to employee groups and business owners and to generate awareness of the concept with a broader general public. The mission should also include assistance in obtaining professional assistance for pre-feasibility studies in situations involving an impending closure or substantial layoff for a preliminary assessment of the advisability of conducting a comprehensive study exploring the feasibility of having a company or group purchase the entity.

It is recommended that a two year pilot program be initiated by the Department of Business Assistance with an additional appropriation of $75,000 for each year to support the hire of a new ESOP Coordinator to initiate a public awareness program. The Department of Business Assistance should coordinate with the Virginia Employment Commission to determine if federal funding from the "Economic Dislocation and Worker Adjustment Assistance Act" may be available to conduct ESOP pre-feasibility studies.

REPORT OF THE SECRETARY OF ADMINISTRATION, SECRETARY OF FINANCE, DEPARTMENT OF PLANNING AND BUDGET AND THE COMMONWEALTH COMPETITION COUNCIL TO STUDY THE ESTABLISHMENT OF AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) INFORMATION AND RESOURCE SERVICE WITHIN THE EXECUTIVE BRANCH OF GOVERNMENT

To
The Governor and the General Assembly of Virginia

Richmond, Virginia

November 20, 1998

I. INTRODUCTION

This report is a culmination of a series of legislative actions that were initiated with the 1997 General Assembly. Senate Joint Resolution No. 284 (1997) was the first action recognizing the potential value of employee stock ownership plans *(Appendix A)*. In the 1998 session Senate Resolution No. 103 was approved *(Appendix B)* and an employee stock ownership (ESOP) study requirement was included in the Appropriation Act.

This report fulfills the requirements of "Item 53.B" of the 1998 Amendments to the 1998 Appropriation Act requesting the Secretary of Administration, in conjunction with the Commonwealth Competition Council, the Department of Planning and Budget, and the Secretary of Finance to study the necessary resources, staffing, and other requirements, including the need for appropriate legislation, to establish an employee stock ownership (ESOP) information and resource service within the executive branch of government, and to report the findings and recommendations to the Governor and the 1999 General Assembly *(Appendix C)*.

II. STUDY METHODOLOGY

A study group consisting of staff members representing the Secretaries of Administration, Finance, Commerce and Trade; staff from the Department of Planning and Budget, the Department of Business Assistance, the Commonwealth Competition Council and the Virginia Employment Commission was organized to review and study the requirements of "Item 53.B" of the Appropriation Act.

The group compiled data relating to the growth and success of ESOPs; developed a list of states that support ESOPs as a matter of public policy; conducted interviews and collected data from two other successful states that provide ESOP services; developed the components of a potentially successful Virginia program; and determined the most appropriate agency within the Virginia executive branch to implement an employee stock ownership plan (ESOP) information and resource service.

Information was collected from The ESOP Association; Foundation for Enterprise Development; the National Center for Employee Ownership; the Ohio Employee Ownership Center; the Ownership Transition Services Division of the Empire State Development Corporation, and the Virginia Employment Commission.

Appendices in this report detail the growth of ESOPs *(Appendix D)*; federal and state laws supporting ESOPs *(Appendices E and F)*; organizations supporting ESOPs *(Appendix G)*; employee ownership/corporate performance studies *(Appendix H)*; a summary of the Economic Dislocation and Worker Adjustment Assistance Act which can provide funds to support Virginia's program *(Appendix I)*, and Virginia ESOP companies *(Appendix J)*.

III. EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

What Is an ESOP?

An ESOP is a qualified employee benefit plan primarily used for retirement purposes. An ESOP is governed by the Employee Retirement Income Security Act (ERISA), which gave ESOPs specific statutory framework in 1974. Since 1974, ESOPs have been given a number of additional tax benefits which are detailed in *Appendix E.* ESOPs are a form of a stock bonus plan designed to make a broad spectrum of employees stockholders in the sponsoring company. Like other qualified deferred compensation plans, they must not discriminate in their operations in favor of highly compensated employees, officers, and owners. ESOPs must appoint a trustee to act as the plan fiduciary. Larger companies tend to appoint an outside trust institution, while smaller companies typically appoint a manager or create an ESOP trust committee. The ESOP trust maintains the *tax-deferred* individual accounts for the participating employees.

An ESOP provides attractive tax-advantaged benefits with one of its most sophisticated uses being able to borrow money. These tax benefits allow an ESOP company to borrow money and repay *both* principal and interest in *pre-tax* dollars. In this approach, the company sets up an ESOP trust. The trust then borrows money from a lender and the company repays the loan by making tax-deductible contributions to the trust which in turn pays the lender. The loan must be used to acquire stock in the company and the loan proceeds can be used for any legitimate business purpose. The stock is put into a "suspense account" where it is released and allocated to employee accounts as the loan is repaid. As employees leave the company or retire, the company pays them the value of the stock allocated in their accounts. In return for agreeing to funnel the loan through the ESOP, the company gets a number of tax benefits. In addition to deducting for tax purposes the entire loan contribution it makes to the ESOP, the company can deduct dividends paid on the shares acquired with the loan proceeds. In other words, the earnings of the stock in trust help pay for the stock itself.

How ESOPs Are Used

The ESOP can buy both new and existing shares for a variety of purposes:

- The most common application for an ESOP is to buy the shares of a departing owner/s of a closely held company. Owners can defer tax on the gain they have made from the sale to an ESOP if the ESOP holds more that 30 percent of the company's stock. The purchase can be made in pre-tax dollars.

- Buy newly issued shares in a company with the borrowed funds being used to provide new capital. The company can, in effect, finance growth or acquisitions in pre-tax dollars while these same dollars create an employee benefit plan.

- The above uses generally involve borrowing money through the ESOP, but a company can simply contribute new shares of stock to an ESOP, or use cash to buy existing shares, as a means to create the employee benefit plan.

IV. EMPLOYEE OWNERSHIP AS A PUBLIC POLICY

Employee ownership owes its current success not to utopian aspirations but to the tax code. The most notable federal law is the Employee Retirement Income Security Act of 1974 which established the statutory framework for ESOPs. Since 1974 Congress has enacted other measures for ESOPs and expanded their tax advantages *(Appendix E)*. These tax advantages have made ESOPs the primary form of employee ownership.

Employee ownership works. Firms with significant employee ownership outperform conventional companies. Studies have shown that companies with employee stock ownership plans have twice the productivity increases of comparable firms and an analysis for the New York Stock Exchange estimated that productivity in the United States would increase by 20 percent if American companies made a serious effort to involve employees in the decision-making at all levels and reward them with the gains from this effort.[2]

The record of employee ownership has made it an increasingly attractive alternative for state and local economic development. The encouragement of employee ownership is

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[2] "Encouraging Employee Ownership: The Role of Government" in Employee Ownership: A Legislative Guide (National Center for Employee Ownership, 1985).

a situation where everyone wins. Raising the rates of reinvestment, increasing job security, and improving productivity strengthens the economic foundations of the state.

The pattern of local ownership implicit in employee-owned firms anchors local capital and profits are not siphoned off to distant corporate headquarters. Employee-owned firms have a higher local multiplier effect: they do more of their purchasing locally and employee owners' purchasing power is more closely tied to the community than that of conventional shareholders.

Employee-owned companies sustain jobs where people are in place and protect state and local economies against the capricious decisions of distant conglomerates and multinational corporations. By anchoring local capital, employee-owned companies provide a more secure economic base to the state and communities.

V. EMPLOYEE OWNERSHIP AND CORPORATE PERFORMANCE

The following are excerpts from a 1998 study by the National Center for Employee Ownership:

- Researchers now agree that the "case is closed" on employee ownership and corporate performance. Findings this consistent are very unusual. We can say with certainty that when ownership and participative management are combined, substantial gains result.

- Employees are significantly better compensated in ESOP companies than are employees in comparable non-ESOP companies.

- Companies that are publicly traded and at least 20 percent or more owned by an ESOP are more organizationally stable than comparable non-ESOP companies.

- In a 1998 survey of more than 500 companies with ESOPs, 82 percent of respondents said they thought their company made a good decision that has helped the company.

- From 1992 through 1997 the American Capital Strategies, Ltd. "Employee Ownership Index" ("EOI") grew 193 percent, while the Dow was up 145 percent and the S& P 500 was up 150 percent.

- A comprehensive study in Ohio reported very positive results from employee ownership firms on a number of dimensions. The companies did exceptionally well in generating jobs, increasing the level of employee involvement in decision-making, and generally provided a good benefit to employees.

VI. THE NEED FOR ESOP SUPPORT IN VIRGINIA

An ESOP may have been the solution to two plant closings in Southwest Virginia and other potential closings in other parts of the Commonwealth. The following article appeared on June 27, 1998 in the Richmond Times-Dispatch.

Danville Losing Another Textile Plant

> Danville - Sock factory closure to idle 350. This is a second announcement of a plant closing in six months. About 350 people are losing their jobs after a sock factory that had been making hosiery for 100 years announced it was closing its doors. Durham 2000 will shut down September 7th. It is the second local textile plant to close in the past six months costing the city a combined total of 670 jobs. The company plans to assist employees in finding new jobs, but many workers want to keep the jobs they have now. The displaced workers will have a tough time finding new textile jobs said Ralph Price, Danville office manager for the Virginia Employment Commission. In January, Bassett-Walker, Inc. closed its Chatham factory, leaving 320 employees without jobs. The unemployment rate in Danville and Pittsylvania County was 5.7 percent in April, Price said.

In program year 1997, the Dislocated Worker Unit of the Virginia Employment Commission received **79** warning notifications of potential business reductions in force, layoffs, or business closings that had a potential impact affecting over **12,000** employees.

VII. STATES' SUPPORT FOR EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

Sixteen states have enacted laws and implemented programs designed to encourage employee ownership *(Appendix F)*. The use of employee ownership to start a new business is only one of the circumstances in which employee ownership has been useful. It is also a means to refinance an existing business, to avoid the liquidation of a closely held business, and to finance employee buyouts of facilities threatened by shutdown have saved jobs and protected communities against additional job losses that would otherwise occur as the impact of the plant closing rippled through the community.

The federal tax legislation passed in 1974 established the parameters for state action by creating the advantages for employee stock ownership plans. The states' practice has been to seek to achieve the social and economic goals which lie beyond the scope of the federal tax code.

These states provide education, technical and financial assistance, and encourage employee participation which are not features of the federal tax law. State governments fill this gap between tax incentives and the establishment of employee-owned companies in a practical fashion on a daily basis, particularly because of the close contact that select state agencies have with businesses. Their role in encouraging employee ownership stems from their interest in creating and maintaining jobs and businesses within state boundaries.

VIII. TWO SUCCESSFUL STATE PROGRAMS

The study group obtained significant information from two states with successful ESOP informational and support offices. The primary mission of these programs is job and business retention.

State of New York - New York's Office of Ownership Transition Services (OTS) is part of the New York State Department of Economic Development. This service has been in existence since 1987. It operates under a *memorandum of agreement* with the New York State Department of Labor which funds the entire program with federal funds through the "Economic Dislocation and Worker Adjustment Assistance Act." OTS receives up to $1 million per year to operate the program. Seventy-five percent of the funds are used to hire consultants to conduct ESOP pre-feasibility studies and to implement ESOPs. OTS is staffed by two full-time professionals. Since the inception of the program, the OTS consultants have completed **372** pre-feasibility studies which have assisted **18,000** employees at various companies. A total of **65** of these studies resulted in new ESOPs. In the most recent program year, the consultants have completed **55** pre-feasibility studies providing assistance to **4,500** employees. **Sixteen** of these studies resulted in ESOP implementations which saved **1,833** jobs.

State of Ohio - The state of Ohio initiated its Employee Ownership Assistance Program in 1988. It is administered by the Ohio Employee Ownership Center based at Kent State University in Kent, Ohio. It operates under a grant *memorandum of agreement* with the Ohio Bureau of Employment Services. This grant program is provided under Title III of the Job Training Partnership Act (JTPA) by the Ohio Bureau of Employment Services. JTPA is technically the same as the "Economic Dislocation and Worker Adjustment Assistance Act." The Center has an operating budget of $450,000. In addition to federal funding, the Center is supported by $140,000 in state funds, fees from private companies to provide training and seminars, membership fees, grants from private foundations, and advertising fees from private ESOP consultants. The Center also receives $200,000 in matching grant funds from JTPA. These matching funds, which are not part of the operating budget, are used to hire private consultants to conduct ESOP pre-feasibility studies. The Center is staffed by 5.5 full-time professionals. Since the inception of Ohio's program, it has assisted some **9,600** employees in buying part or all of **39** companies. Many of these employees would otherwise have lost their jobs to plant shutdowns or corporate downsizing. During 1997, the Ohio Employee Ownership Center received requests for information or assistance from **43** firms or plants employing about **5000** employees.

In its last report to the Ohio Legislature, the Center concluded that its program is achieving its economic development ends both through averting shutdown of otherwise viable firms and, more importantly, retaining jobs through providing an ownership succession strategy in small business. The report states that as an economic development strategy, employee ownership yields long-term benefits in three additional areas: (1) employee-owned firms reinvest in capital improvements in existing facilities at a higher rate than other firms, (2) employee-owned firms also reinvest in their human capital at a higher rate, and (3) there is growing evidence that employee-owned firms have a higher economic multiplier effect in their communities.

The report concludes that the program is highly cost-effective in providing timely assistance and advice to Ohio firms. As a result of employee ownership, thousands of Ohio jobs have been retained that would otherwise have been lost.

IX. COMPONENTS OF A STATE PROGRAM FOR VIRGINIA

The legislative foundation to support a Virginia program is currently in place. What is needed is a concerted program to inform the business community that the Commonwealth supports ESOPs as a business and job retention component of the state's economic development arsenal. The following components of a program are recommended to demonstrate the Commonwealth's commitment to an effective ESOP information and resource service:

- **Increasing Awareness**. Dissemination of information is one way Virginia government can encourage employee ownership. Information is the first step in establishing an employee-owned firm. State agencies have great potential for increasing public awareness. Once agency personnel are acquainted with the concept of employee ownership they can answer inquiries, establish programs for increasing awareness, and network with Virginia ESOP consultants to expand the market.

- **Policy Declaration**. A simple declaration that promoting employee ownership is state policy can be a first step toward internal awareness and facilitate further steps to public awareness and assistance. A resolution similar to Senate Joint Resolution No. 103 *(Appendix B)* would have a very positive impact on Virginia businesses.

- **Internal Education**. Increasing education through education programs is another way the state can encourage employee ownership. These programs can be initiated without a legislative mandate. The selected state agency needs the resources and capacity to carry out this mission.

- **Facilitate Employee Ownership**. Encourage the establishment of employee-owned firms by simplifying the process of starting such a firm, creating an environment where such businesses can be maintained, and focus on benefits of ESOPs for business succession planning.

- **Provide Technical Assistance**. Potentially successful employee-owned companies may not be aware of the expertise that is available to assist them. Pre-feasibility and ESOP professional services are often needed. Funds for pre-feasibility studies are available from federal sources through the "Economic Dislocation and Worker Adjustment Assistance Act (Public Law 100-418, Title V1, Subtitle D), a summary of which is in *Appendix I*. The selected state agency can provide some initial training and referrals to professional advice in finance, marketing, management, operations, accounting and legal procedures. Other states have dealt with the complexity of employee ownership by designating one agency as the clearing house for inquiries about employee ownership.

  In addition to the private professional assistance that is available in the Commonwealth, Virginia's Small Business Development Center Network with twenty-four locations is available to provide assistance on a wide range of business topics.

- **Provide Financial Assistance.** If feasibility studies find that a business would be viable as an employee-owned company, the next step is obtaining financing. In addition to financial institutions and specialty finance firms that invest in business acquisitions, state support may be available to assist potentially new ESOPs.

  The Virginia Small Business Financing Authority (VSBFA) was created in 1984 to offer a broad array of financial assistance programs to businesses in the Commonwealth. Loans and loan guarantees, as well as both taxable and tax-exempt revenue bonds, are available statewide to serve targeted needs. VSBFA assists companies in accessing federal loan guarantees through the Small Business Administration. The Financial Program Managers of the VSBFA are available to assist companies and counsel company officers in alternative financing arrangements. VSBFA assists companies in securing public or private financing to create jobs or new investment in the Commonwealth.

  VSBFA's legislation is broad in terms of the types of financial assistance it offers and provides businesses in the Commonwealth with access to financing needed for growth, expansion, and *job retention*. To assist potential employee-owned companies and to meet their financing needs, VSBFA offers the following programs:

◆ **Virginia Economic Development Revolving Fund** - This program provides loans up to $700,000 to bridge the gap between private debt financing and private equity for projects that will result in job creation or retention.

◆ **Loan Guaranty Program** - This program is designed to reduce the risk to banks in making loans and thereby increases the availability of capital for small businesses. Under the program, VSBFA will guarantee up to $250,000 or 50 percent, whichever is less, of a bank loan.

X. SUMMARY

Based on the premise that employees are best motivated to achieve growth and productivity if they share in the financial benefits of their success, the Commonwealth should promote the concept of entrepreneurial employee ownership as a means of facilitating economic growth in the Commonwealth. Nationally, the robust growth of employee ownership in the past decade and the success of thousands of employee-owned companies offer ample evidence of the importance of broad-based ownership participation.

XI. CONCLUSION

Effective and viable economic development programs should help to develop productive, competitive enterprises by promoting entrepreneurial employee ownership and participation as a fair and effective means of motivating the workforce and improving corporate performance. By providing practical information and assistance to help Virginia businesses implement equity participation programs, the Commonwealth will enhance economic and social development through broader ownership and involvement in the free enterprise system.

The consistent successful element in the states that promote employee ownership has to do with the responsible agency. The responsible agency must have the resources and the capacity for implementing the policy, must be highly visible, and have business financing capability.

XII. RECOMMENDATIONS

Consideration should be given by the Governor and the General Assembly to establish an employee stock ownership (ESOP) information and resource service within the Department of Business Assistance.

The mission of this service should be to promote employee participation and stock ownership by providing information, education, and technical services to employee groups and business owners and to generate awareness of the concept with a broader general public. The mission should also include assistance in obtaining professional assistance for pre-feasibility studies in situations involving an impending closure or substantial layoff for a preliminary assessment of the advisability of conducting a comprehensive study exploring the feasibility of having a company or group purchase the entity. The service should facilitate ESOP financing where appropriate.

The Department of Business Assistance was created by the 1996 General Assembly with the responsibility for industry development, workforce services, small business development, and financial services. The department leads the effort to enhance the relationship between the state and existing businesses by providing a single point of contact for state services. A business call program serves as the core-information gathering mechanism to discover how the state can service its existing business community.

The Department of Business Assistance works closely with the business community to resolve problems and provide overall access to state programs and services and to generally improve the overall business climate in the state.

The Department of Business Assistance has the organizational structure in place to establish an employee stock ownership plan (ESOP) information and resource service without the need for additional legislation.

It is recommended that a two year pilot program be initiated by the Department of Business Assistance with an additional appropriation of $75,000 for each year to support the hire of a new ESOP Coordinator to initiate a public awareness program. The Department of Business Assistance should coordinate with the Virginia Employment Commission to determine if federal funding from the "Economic Dislocation and Worker Adjustment Assistance Act" may be available to conduct ESOP pre-feasibility studies.

APPENDICES

SENATE JOINT RESOLUTION NO. 284

Requesting the Secretary of Administration, in cooperation with the Commonwealth Competition Council, to study methods to privatize appropriate state government functions through the development and promotion of employee-owned companies.

Agreed to by the Senate, January 30, 1997
Agreed to by the House of Delegates, February 20, 1997

WHEREAS, the Commonwealth of Virginia desires to provide the citizens of the Commonwealth with services that are of high quality at an efficient cost; and

WHEREAS, the Commonwealth Competition Council is charged by § 9-342 of the Code of Virginia to review possible alterations in the Commonwealth's delivery of services to its citizens in order to ensure cost effective, high quality services; and

WHEREAS, it may be beneficial to convert some units of the Commonwealth's current government structure to the private, for-profit sector, by either converting the unit to a privately owned for-profit corporation, or by contracting with a privately owned corporation to perform the unit's tasks; and

WHEREAS, there are approximately ten thousand employee-owned corporations in the United States, which most frequently evolved through employee stock ownership plans; and

WHEREAS, there is ample evidence that employee-owned corporations often outperform traditional corporations by involving employees as owners in the decision making, providing additional performance incentives, and fostering entrepreneurial skills; and

WHEREAS, the use of an employee stock ownership plan in combination with the transfer of appropriate government functions from the public sector to the private sector may serve to minimize the loss of jobs for the public employees who are affected by such a transfer; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Secretary of Administration, in cooperation with the Commonwealth Competition Council, be requested to study methods to privatize appropriate state government functions through the development and promotion of employee-owned companies. The study shall (i) examine the current rules, procedures, policies, and limitations of employee stock ownership plans in Virginia; (ii) examine current and innovative employee stock ownership plans in other states; and (iii) determine the necessary level of state financial support for such plans.

The Secretary shall complete his work in time to submit his findings and recommendations to the Governor and the 1998 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

SENATE JOINT RESOLUTION NO. 103

Recognizing the importance of employee stock ownership plans (ESOPs) in the private sector as a financial tool to promote employee-owned companies

Agreed to by the Senate, February 13, 1998
Agreed to by the House of Delegates, March 12, 1998

WHEREAS, the Commonwealth of Virginia has been at the forefront of efforts to encourage innovation in the way Virginia agencies provide goods and services to the public; and

WHEREAS, the taxpayers of Virginia expect the Commonwealth of Virginia to explore ways to ensure that government provides its goods and services in the most efficient and cost-effective manner, thus ensuring that Virginia can continue to keep its state and local taxes at relatively low rates; and

WHEREAS, Virginia has been a leader among the states in attempting to use privatization to encourage state functions to be turned over to the private sector when appropriate; and

WHEREAS, Virginia has also been a leader in encouraging government agencies to be innovative to keep costs low and quality high, and in encouraging public/private partnerships as a way of leveraging state dollars with creative private sector initiatives; and

WHEREAS, the Secretary of Administration and the Commonwealth Competition Council were directed by Senate Joint Resolution No. 284 approved by the 1997 General Assembly to study methods to privatize appropriate state government functions through the development and promotion of employee-owned companies, commonly known as ESOPs; and

WHEREAS, Senate Document No. 12 to the Governor and the 1998 Session of the General Assembly found that ESOPs are an excellent financial tool which encourages employee ownership of companies, which in turn can result in significantly enhanced employee motivation and corporate productivity; and

WHEREAS, the benefits of ESOPs complement the efforts to encourage some functions currently performed by the Commonwealth to be transferred to private ownership, and perhaps even to the same employees presently providing those state functions; and

WHEREAS, there are no state government statutes that prevent state government services or functions from becoming an ESOP; and

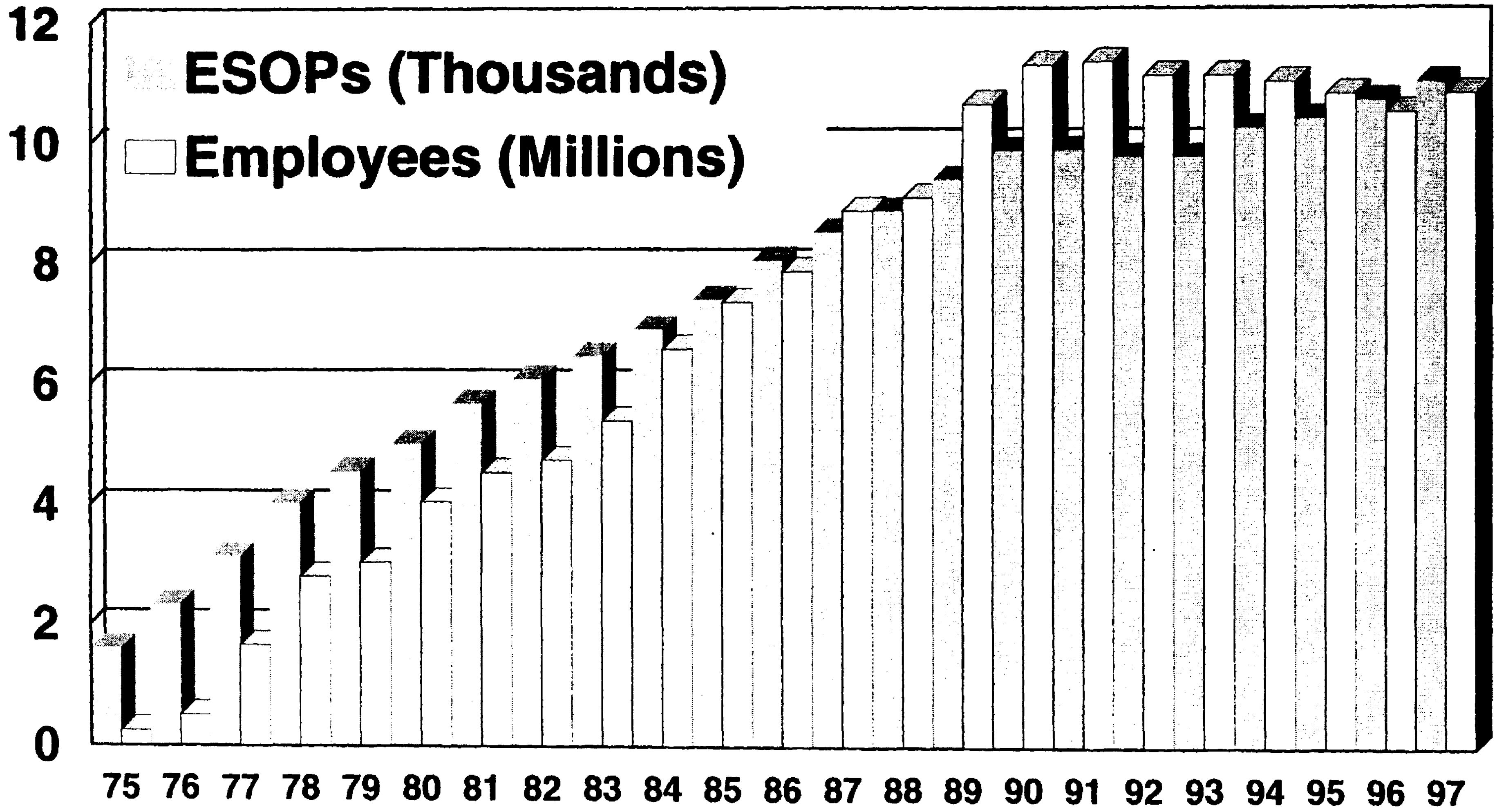
WHEREAS, the Commonwealth should encourage incentives offered by ESOPs which would further increase the Commonwealth's privatization efforts; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That this legislative body supports ESOPs as an effective and viable privatization method to provide state and local government services and functions to the citizens of the Commonwealth.

1998-2000 APPROPRIATION ACT
(ITEM 53.B)

The Secretary of Administration, in conjunction with the Commonwealth Competition Council, the Department of Planning and Budget, and the Secretary of Finance, shall study the necessary resources, staffing, and other requirements, including the need for appropriate legislation, to establish an employee stock ownership plan (ESOP) information and resource service within the Executive Department. A report of the findings and recommendations shall be made to the Governor and the 1999 General Assembly.

GROWTH OF ESOPs



Source: The National Center for Employee Ownership

A-4

MAJOR ESOP FEDERAL LAWS

1. **Regional Rail Reorganization Act of 1973:** This was the first statute to mention "ESOPs". It required a feasibility study of the use of an ESOP for the reorganization of the Northeast freight rail system into Conrail.

2. **Employee Retirement and Income Security Act of 1974 (ERISA):** This law created a specific statutory framework for ESOPs and carefully exempted them from certain requirements applicable to other benefit plans. The act thereby provided ESOPs with the unique authority among employee benefit plans to borrow money. It required ESOPs to invest primarily in employer securities. ESOPs were defined as "qualified employee benefit plans," meaning that contributions to them are tax-deductible and that they must abide by the allocations, vesting, and other rules ERISA applies to qualified benefit plans.

3. **Small Business Employee Ownership Act of 1980:** Prior to this Act, the SBA would not guarantee loans to ESOPs. This Act provided statutory authority for the SBA to make loan guarantees to ESOPs and made their rules for loans to employee situations more liberal.

4. **Economic Recovery Tax Act of 1981:** This Act contained several provisions. First, it authorized payroll-based stock ownership plans. Second, the Act raised limits on how much could be deducted for contributions to a leveraged ESOP. This new law raised the limits from 15 percent to 25 percent of payroll to cover the principal part of the repayment and an unlimited amount of the interest portion. Third, the Act allowed companies that are substantially employee-owned to require that departing employees take cash for the fair market value of their stock, rather than the stock itself when receiving their ESOP distribution.

5. **Deficit Reduction Act of 1984:** This Act contains the most significant incentives for employee ownership. They include:

    a) A provision allowing an owner of an independent business to defer taxation on the gains made by a sale of stock to an ESOP by reinvesting the gains within 12 months in the stock or stocks of other domestic companies. When that new stock is sold, taxes would be due. At least 30 percent of the ownership of the firm must be held by the ESOP after the transaction for the provision to be effective;

    b) A provision allowing commercial lending institutions to deduct 50 percent of the interest income they receive from a loan to a company for the purchase of acquiring stock through an ESOP;

c) A provision allowing an ESOP company to deduct dividends paid directly to ESOP participants.

6. **Tax Reform Act of 1986:** This Act made a number of technical changes in ESOP law, as well as adding several new incentives for ESOPs and a number of new regulations.

   New Incentives:
   -Dividends contributed to an ESOP can be used to repay an ESOP loan.
   -Dividends do not count against the 25 percent of covered compensation limit that normally can be deducted to repay the principal part of and ESOP loan.

   New Regulations:
   -If requested by the employee, ESOPs are required to distribute up to 25 percent of account balances to employees over age 55 with 10 years ESOP participation and up to 50 percent for employees age 60 with 10 years ESOP participation;
   -Independent, outside appraisals must be performed for all ESOP companies at least annually;
   -After 1989, employees receiving their ESOP distribution before age 59 ½ must pay a 10 excise tax on the amount unless they roll it over into an IRA or have it paid in a life annuity;
   -Vesting must be complete in seven years if gradual or five years if vesting does not start until the fifth year;
   -Rules were tightened to prevent discrimination on employee participation.

7. **Small Business Job Protection Act of 1996:** This legislation made a number of important changes in laws governing ESOPs and employee benefit plans:

   a) It repealed Section 133 of the IRS Code, which had provided that qualified lenders to ESOPs could exclude 50 percent of the interest income from ESOP loans;
   b) ESOPs will be allowed to own stock in Subchapter S corporations effective tax years after December 31,1997;
   c) Contributions to defined benefit pension plans will no longer have to be combined with contributions to defined contribution plans when calculating whether a company is exceeding contribution limits for all ERISA plans. This change is effective after December 31,1999;
   d) Employee deferrals to tax-qualifed plans, such as 401(k) plans and cafeteria plans, will no longer reduce the definition of eligible pay for purposes of determining whether an individual plan participant received an excess contribution.

8. **The Taxpayer Relief Act of 1997:** This Act, signed into law on August 5, 1997, contains provisions that permit Subchapter S corporations to sponsor an ESOP, with certain characteristics different from the treatment of C corporations sponsoring an ESOP. The "ESOP rollover" will not apply, contribution limits will be 15 percent of pay in all plans, interest payments on ESOP loans will count towards the contribution limits, and dividends will not be deductible. "TRA '97" also makes important technical corrections to the provisions of the Small Business Job Protection Act of 1996 that allows S corporation stock to be owned by ESOPs beginning in 1998.

   An S corporation will not be required to offer participants the right to receive distributions in the form of employer stock. These plans may make all distributions in cash. Finally, an S corporation ESOP will not be subject to income tax on its share of the net income of the S corporation or on gains realized upon the disposition of employer stock.

   "TRA '97" also reduces the maximum rate of tax on long-term capital gains and thereby creates opportunities for increased tax savings for certain lump sum distributions of plan benefits in the form of employer stock.

MAJOR ESOP STATE LAWS

State Cooperative Statutes

Connecticut, Maine, Massachusetts, New Hampshire, New York, Washington, and Vermont have each passed identical legislation establishing a state worker cooperative incorporation statute. The laws make it clear that companies can incorporate as worker cooperatives, use an internal accounting system similar to profit sharing, be based on the membership of workers, follow one-member, one-vote rules, and use the word cooperative in their corporate name.

Laws and Programs Providing Financial and Technical Assistance Support

Connecticut, Hawaii, Illinois, Massachusetts, Michigan, Montana, New Jersey, New York, Ohio, Oregon, Pennsylvania, Washington, and Wisconsin have each passed laws providing loans and/or loan guarantees for worker buyout efforts, funds for technical assistance buyouts, or programs for general outreach on employee ownership. A short synopsis of some of these state laws is described below.

Connecticut's law directs the Department of Economic Development to help fund both feasibility studies and provide financing for employee buyouts of plants that would otherwise be closed or sold to out-of-state companies.

Hawaii reinstated legislation in 1996 to actively promote and support expanded ownership and participation in Hawaii businesses.

Illinois law provides authority for the Department of Commerce and the Employee-Owned Enterprise Advisory Council to assist buyouts. Bond-backed financing can be used for low-interest loans with a limit of $250,000 or 25 percent of the purchase price, whichever is lower. The Department can also conduct outreach programs and provide technical assistance for buyout efforts.

Massachusetts, in 1989, passed "An Act Providing For Employee Involvement and Ownership Projects." The law created the Massachusetts Office of Employee Involvement and Ownership to provide technical assistance, education, and training for employee ownership and participation programs.

Michigan has passed six laws similar to the concept in Massachusetts.

A **Montana** law passed in 1989 directs the Department of Commerce to spread information about employee ownership and exempts ESOPs from securities registration.

New Jersey's 1983 law directs the Commissioner of Commerce and Economic Development to provide information on employee stock ownership plans and assist employee buyouts in cases in which substantially higher unemployment will result.

New York's "Employment Ownership Assistance Act" of 1983 provides the Department of Commerce with authority to promote the idea of employee ownership. Through a 1987 executive order, New York also created the New York Center for Employee Ownership and Participation to provide training and assistance to employee ownership programs and to assist new potential ESOPs. This function is now called "Ownership Transition Services" and is part of the Empire State Development Corporation.

Ohio's law assists persons seeking employee ownership as an alternative to closing or relocating a firms's operation. In addition, the Ohio Employee Ownership Center provides information and presentations on employee ownership, as well as prefeasibility studies for those considering it.

Oregon's 1985 law created the Oregon Stabilization and Conversion Fund to provide studies for troubled companies.

Pennsylvania's "Employee Ownership Assistance Program", passed in 1984, provides funding for feasibility studies and professional services assistance.

Washington's "Employee Cooperative Corporations Act", passed in 1987, directed the Washington Department of Community Development to conduct education and provide technical assistance for employee ownership companies. The department can loan up to $700,000 in state development loans to employee ownership companies.

Wisconsin's "Employee Ownership Act", passed in 1983, provides a $25,000 grant to companies considering employee ownership. The grant is forgiven if the plan goes through.

KEY ORGANIZATIONS

1. **The ESOP Association, Washington, D.C.**

   Trade organization for ESOP firms.

2. **Foundation for Enterprise Development, Washington, D.C.**

   Organization promoting entrepreneurship and employee ownership.

3. **Massachusetts Corporation for Business, Work, and Learning, Office of Employee Involvement and Ownership, Boston, Massachusetts**

   Information, technical assistance, and funding for feasibility studies.

4. **Empire State Development Corporation, Office of Ownership Transition Services, New York, New York**

   State-funded organization providing education, research, technical assistance and funding for employee ownership efforts.

5. **Ohio Employee Ownership Center, Kent State University, Kent, Ohio**

   Non-profit organization providing information and preliminary technical assistance for employee ownership efforts in Ohio.

6. **The National Center for Employee Ownership, Oakland, California**

   Non-profit organization providing research and technical assistance to employee-owned companies.

7. **Washington Department of Community, Trade and Economic Development, Employee Ownership Program, Olympia, Washington**

   State-funded organization providing education, research, technical assistance and funding for employee ownership efforts.

EMPLOYEE OWNERSHIP AND CORPORATE PERFORMANCE

Courtesy of National Center for Employee Ownership
1201 Martin Luther King Jr. Way, Oakland, CA 94612

1. A 1998 study by Peter Kardas and Jim Keogh of the State of Washington, and Adria Schiff of the University of Washington, shows that employees are significantly better compensated in ESOP companies than are employees in comparable non-ESOP companies. Using 1995 employment and wage data, the study matched up 102 ESOP companies with 499 comparison companies in terms of industrial classification and employment size. In terms of wages, the median hourly wage in the ESOP firms was 5% to 12% higher than the median hourly wage in the comparison companies, depending on the wage level of those being compared. The study found the average value of all retirement benefits in ESOP companies was equal to $32,213, with an average value in the comparison companies of about $12,735.

2. A 1998 study by Margaret Blair, Douglas Kruse, and Joseph Blasi found that companies that are publicly traded and at least 20% or more owned by an ESOP are more organizationally stable than comparable non-ESOP companies. Looking at companies between 1983 and 1996, the study found that 74.1% of the ESOP companies remained as independent operations while only 37.8% of the comparison companies did (these figures changed to 59.3% and 51.1% for the period 1983 through 1997, however.)

3. In 1998 a survey conducted by the Employee Ownership Foundation of more than 500 companies with ESOPs, 82% of respondents said they thought their company made a "good decision that has helped the company." For the sixth consecutive year, ESOP companies have given favorable marks of 80% or

above to their ESOP and its effect on their companies' performance. Three percent of responses said the ESOP was a bad decision, and the other 15% responded that the decision had no effect. 51% of respondents also indicated that their company's ESOP had improved the employee productivity, with only 1% indicating the ESOP had harmed productivity, and the other 47% indicating no discernable effect. Seventy percent of the more than 500 respondents said their company's performance was better than in 1996. And 77% said their ESOP company had a sales increase from the previous year. More than 350 respondents, or 65%, said their company had a profitability increase from 1996.

4. From 1992 through 1997 the "Employee Ownership Index" (EOI") grew 193% from 1992 through 1997, while the Dow was up 145% and the S&P 500 150%. The EOI outperformed ali other market indexes for 1997, gaining 32.5% for the year compared to 31.0% for the S&P 500, 22.6% for the Dow, and 29.2% for the Russell 5000. The EOI tracks the average percentage increase in stock price of all publicly traded companies with a public record of 10% or more employee ownership and more than $50 million in market value.

5. A 1995 study by Donald Collat found that public companies that did not set up their ESOPs in response to a takeover threat saw their operating margins improve 2.1% per year compared to their pre-ESOP performance. The study looked at companies for three years before and after the ESOP, indexing for market effects.

6. A comprehensive 1993 study by the Northeast Ohio Employee Ownership Center (NOEOC) reported very positive results from employee ownership firms in the state on a number of dimensions. The companies did exceptionally well in generating jobs, increased the level of employee involvement in decision making substantially, and generally provided a good benefit to employees. Perhaps the most striking result of the study was that 41% of the employee ownership company respondents increased employment, 22% reduced it, and 37% kept it level. When these results are compared to industry averages for each firm, the employee ownership companies did better than 49% of their peers, the same as 50%, and worse than only 1%. The authors point out that "if the rest of the Ohio companies had matched Ohio's ESOP firms during the last three years, the state would have full employment!"

7. A 1990 study by the Michigan Center for Employee Ownership and Gainsharing and Michigan State University asked executives to indicate if employee ownership had had an impact on sale, profits, productivity and other measures. The results were very positive. They were the most positive, however, in companies that scored high on participative management measures. Majority employee owned companies also did better. In addition, the study found that the incidence of employee participation programs, such as work teams and advisory councils, increased 50% to 100% after an employee ownership plan was set up.

8. A 1989 University of New Orleans Study found that, on average, employees in publicly traded ESOP companies receive two to three times as much income from their ESOP as other employees receive from other types of benefit plans. Because the specific value of this benefit varies with the

performance of the employer's stock, the ESOP is a major financial incentive for employee performance.

9. A 1989 study by Hill and Knowtion concerning the effects of ESOPs on shareholders found that 85% of the professional analysts believed that ESOPs build shareholder value if the ESOP is advertised as a means to boost productivity and motivate employees.

10. Employee Ownership in America: The Equity Solution, the result of a four-year study by the NCEO of 37 ESOP companies, found that the most important factor associated with positive employee attitudes toward ownership was a large annual increase in the value of their ESOP accounts. Other important factors included management's attitude toward employee ownership and job-level participation opportunities. This study measured employee attitudes, but did not measure corporate performance directly.

11. A 1988 ESOP Association survey of member companies found that 16% of the companies believed ESOPs had "strongly improved" their productivity, while 59% believed that employee motivation and productivity had "somewhat improved".

12. A 1989 study conducted by the National Chamber Foundation of the tax costs and benefits of ESOPs found that the Treasury Department estimate of the tax cost of ESOP was $160 per person for the 20 million plan participants. This $160 per person investment is offset by productivity improvements ranging from 3% to 17% per year, job growth in ESOP companies of roughly twice what would otherwise be the case, new savings per employee of roughly $3,100 per year and new tax revenue on that savings.

13. A 1987 study by the General Accounting Office, based on data collected between 1975-1982, found ESOPs had no statistically significant impact on productivity as measured by value added divided by compensation, or on profitability as measured by after-tax return on assets. The report also noted that it collected data on ESOP companies for three years after their ESOP was installed (i.e., plans were installed during 1976-1979), and "it may be that three years is too short a time for any effects of ESOPs to appear". This report did not analyze measures such as sales and employment growth.

14. A 1986 NCEO study established the first definitive causal link between employee ownership and improved corporate performance. The ESOP companies had sales growth 5.40% faster than their competitors after their plans versus 1.89% per year before. The ESOP companies had employment growth 5.05% per year faster than their competitors after establishing their ESOP, versus 1.21% before their ESOPs. Both statistics have at least a 95% confidence level (i.e., there is only a 5% probability that the difference could be due to chance). Because the study analyzed ESOP companies performance via-a-vis their competitors for several years both before and after their ESOPs were installed, it is certain that most of the superior performance of ESOP companies is due to ESOPs, not due to the fact that better performing companies are more likely to set up ESOPs (although that seems to be true also).

    The study also found that companies which combined ownership with job-level participation programs did even better than companies which simply started an ownership plan. The most participative companies improved their performance by about 8% to11% on various measures of growth as compared to their pre-ESOP performance, versus about 3.5% for the least participative.

15. The 100 Best Companies to Work For, 1984, found that sharing ownership was one of the characteristics of desirable employers.

16. A 1984 NCEO study for the New York Stock Exchange of thirteen companies that were 10% or more employee owned found that these firms outperformed 62-75% of their competitors, depending on the measure used (net operating margin, return on equity, sales growth and book value per share).

17. A 1984 Savvy magazine survey of the best companies for women to work for added nine companies to their list, five of which were substantially employee owned.

18. A 1984 McKinsey and Company study, "The Winning Performance of Mid-Sized Growth Companies" found that these successful firms tended to share ownership with employees to a greater degree than larger firms.

19. A 1984 Atlanta Federal Reserve study of 22 premier companies in the South found employee ownership to be a common thread.

20. A 1983 NCEO study found that companies with a majority of their stock owned by employees generated three times more net new jobs per year as non-ESOP firms.

U.S. Department of Labor
Employment and Training Administration
Fact Sheet

ECONOMIC DISLOCATION AND WORKER ADJUSTMENT ASSISTANCE ACT (EDWAA)

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) amended Title III of the Job Training Partnership Act (JTPA), and provides funds to States and local substate grantees so they can help dislocated workers find and qualify for new jobs. It is part of a comprehensive approach to aiding workers who have lost their jobs that also includes provisions of the Worker Adjustment and Retraining Notification (WARN) Act and the Trade Adjustment Assistance (TAA) program.

ELIGIBILITY

Workers who have lost their jobs and are unlikely to return to their previous industries or occupations are eligible for the program. This includes workers who lose their jobs because of plant closures or mass layoffs; long-term unemployed persons with limited job opportunities in their fields; and farmers, ranchers and other self-employed persons who become unemployed due to general economic conditions. Under certain circumstances, States may also authorize service for displaced homemakers.

SERVICE DELIVERY STRUCTURE

Each State is divided into substate areas. The programs are designed and operated at the local level, where the decisions about who can be served and which services will be offered are made based on local labor market needs and opportunities, and available resources.

The Governor of each State designates a Dislocated Worker Unit which has the primary responsibility for overall administration and management of the program, including the establishment of a system to respond rapidly to major worker dislocations. Funds are made available to the States each year using a distribution formula based on unemployment in each State.

SERVICES AVAILABLE

EDWAA authorizes an array of comprehensive and timely retraining and readjustment services. States and local substate grantees can tailor the services to meet participants' individual needs based on the funds available. These services include:

Rapid Response. Each State has a Dislocated Worker Unit (DWU) which receives notices of plant closures and mass layoffs covered under the Worker Adjustment and Retraining Notification Act (WARN). When a DWU obtains information about a major layoff, it can respond with on-site services to assist workers facing job losses. The DWU may also help to set up a labor-management committee at the worksite and/or assist in efforts to avert worker dislocations

Retraining Services. Workers can receive classroom, occupational skills, and/or on-the-job training to qualify for jobs in demand. Basic and remedial education, entrepreneurial training, and instruction in literacy or English-as-a-second-language may be provided.

development of individual service plans; labor market information; job development; job search and placement; supportive services (including child care and transportation allowances); relocation assistance and pre-layoff assistance programs.

Needs Related Payments. Dislocated workers in training who have exhausted their unemployment insurance (UI) benefits may receive needs-related payments while they complete training.

Certificates of Continuing Eligibility. These certificates allow eligible dislocated workers to defer the start of retraining, or to obtain their own retraining.

NATIONAL RESERVE ACCOUNT (NRA): States and substate areas may apply for NRA grants from the Department of Labor's Employment and Training Administration (ETA) if they need additional funds to administer and operate projects for eligible workers dislocated due to mass layoffs, plant closures, disasters, and Federal government actions.

FOR FURTHER INFORMATION: Workers, employers, and anyone interested in learning more about the EDWAA program and the services available should contact the appropriate State Dislocated Worker Unit at the phone number listed on the back, or write: Office of Worker Retraining and Adjustment Programs, U.S. Department of Labor, Room N-5426, 200 Constitution Avenue, N.W., Washington, D.C. 20210.

Dislocated Worker Units

STATE	PHONE	STATE	PHONE
Alabama	(334) 242-5893	Nebraska	(402) 471-9903
Alaska	(907) 269-4658	Nevada	(702) 687-4310
Arizona	(602) 542-2484	New Hampshire	(603) 228-9500
Arkansas	(501) 682-3137	New Jersey	(800) 343-3919
California	(916) 654-9212	New Mexico	(505) 827-6846
Colorado	(303) 758-5020	New York	(518) 457-3101
Connecticut	(203) 566-7550	North Carolina	(919) 733-6383
Delaware	(302) 368-6913	North Dakota	(701) 328-2843
Dist. of Col.	(202) 673-4434	Ohio	(614) 466-3817
Florida	(904) 488-9250	Oklahoma	(405) 557-7294
Georgia	(404) 656-6336	Oregon	(503) 373-1995
Hawaii	(808) 586-9067	Pennsylvania	(717) 787-9282
Idaho	(208) 334-6303	Puerto Rico	(809) 754-5633
Illinois	(217) 785-6006	Rhode Island	(401) 277-3450
Indiana	(317) 232-7461	South Carolina	(803) 737-2601
Iowa	(515) 281-9013	South Dakota	(605) 773-5017
Kansas	(913) 296-7876	Tennessee	(615) 741-1031
Kentucky	(502) 564-5630	Texas	(512) 320-9834
Louisiana	(504) 342-7664	Utah	(801) 538-8757
Maine	(207) 287-3377	Vermont	(802) 828-4177
Maryland	(410) 767-2832	Virginia	(804) 786-3037
Massachusetts	(617) 727-8158	Washington	(206) 438-4611
Michigan	(517) 335-0056	West Virginia	(304) 558-1847
Minnesota	(612) 296-7918	Wisconsin	(608) 266-0745
Mississippi	(601) 949-2234	Wyoming	(307) 235-3601
Missouri	(314) 751-7796		
Montana	(406) 444-4500		

U.S. Department of Labor, Office of Worker Retraining
(202) 219-5577

VIRGINIA ESOP COMPANIES [1]

[1] **List provided by The ESOP Association through data received from © 1998 Larkspur Data Resources, Inc.**

1. AAC Associates, Inc.
   Vienna, VA

2. Abercrombie Oil Company, Inc.
   Danville, VA

3. Air Conditioning Suppliers, Inc.
   Richmond, VA

4. Allied Plywood Corp.
   Alexandria, VA

5. Amadas Group
   Suffolk, VA

6. American Medical Laboratories, Inc.
   Chantilly, VA

7. American-Oceanic Coatings Corp.
   Virginia Beach, VA

8. American Standard Building Systems
   Martinsville, VA

9. American Systems Corp.
   Chantilly, VA

10. American Woodmark Corp.
    Winchester, VA

11. Anadac, Inc.
    Arlington, VA

12. Anderson & Associates, Inc.
    Blacksburg, VA

13. Andrulis Research Corp.
    Arlington, VA

14. Appalachia Pharmacy, Inc.
    Appalachia, VA

15. Applied Radiant Energy Corp.
    Forest, VA

16. Architectural Graphics, Inc.
    Virginia Beach, VA

17. Armfield, Harrison & Thomas, Inc.
    Leesburg, VA

18. Armstrong Electric Co., Inc.
    Lynchburg, VA

19. Asm-Pdr, Inc.
    Arlington, VA

20. Atlantic & Pacific Telcom, Inc.
    Salem, VA

21. Automata, Inc.
    Sterling, VA

22. Automated Conveyer Systems, Inc.
    Lynchburg, VA

23. Automated Retirement Plans, Inc.
    Springfield, VA

24. Autometric, Inc.
    Alexandria, VA

25. B-Jac International, Inc.
    Midlothian, VA

26. Bangkok, Inc.
    Arlington, VA

27. Bank of Alexandria
Alexandria, VA

28. Bank of Clarke County
Berryville, VA

29. Bank of Lancaster
Kilmarnock, VA

30. Bank of Tidewater
Virginia Beach, VA

31. Barker Jennings Corp.
Lynchburg, VA

32. Bennettes Paints & Coatings, Inc.
Hampton, VA

33. Betac International Corp.
Alexandria, VA

34. Bicycle Exchange, Inc.
Alexandria, VA

35. Bishop Equipment Co., Inc.
Fairfax, VA

36. Blue Ridge ESOP Associates, Inc.
Charlottesville, VA

37. Boat America Corporation
Alexandria, VA

38. Bowl America, Inc.
Alexandria, VA

39. Branch Group, Inc.
Roanoke, VA

40. Brooks Agency, Inc.
Williamsburg, VA

41. Builders Supply Co. of Petersburg
Petersburg, VA

42. C & S Door Corp.
Christiansburg, VA

43. C. Arthur Weaver Co., Inc.
Richmond, VA

44. C-Cubed Corporation
Springfield, VA

45. C. E. Thurston & Sons, Inc.
Norfolk, VA

46. C. R. Hudgins Plating, Inc.
Lynchburg, VA

47. Calibre Systems, Inc.
Falls Church, VA

48. Cenit Bancorp, Inc.
Norfolk, VA

49. Charles D. Pulman, Inc.
Alexandria, VA

50. Charlottesville Roofing, Inc.
Charlottesville, VA

51. C. Lunsford Sons & Associates, Inc.
Roanoke, VA

52. Chemtreat, Inc.
Glen Allen, VA

53. Chesapeake Bay Rubber & Gasket
Norfolk, VA

54. Chesapeake Corporation
Richmond, VA

55. Chesapeake Financial Shares, Inc.
    Kilmarnock, VA

56. Chesapeake Packaging Co.
    Richmond, VA

57. Circle Solutions, Inc.
    Vienna, VA

58. Climate Control, Inc.
    South Boston, VA

59. Coleman-Adams Construction, Inc.
    Forest, VA

60. Commerce Bank
    Virginia Beach, VA

61. Commerce Bank of Virginia
    Richmond, VA

62. Commonwealth Technology, Inc.
    Alexandria, VA

63. Community Bankshares, Inc.
    Petersburg, VA

64. Community Financial Corporation
    Staunton, VA

65. Computational Physics, Inc.
    Fairfax, VA

66. Comsat RSI, Inc.
    Sterling, VA

67. Comsonics, Inc.
    Harrisonburg, VA

68. Congressional Construction Corp.
    Fairfax, VA

69. Construction Associates, Inc.
    Richmond, VA

70. Corte Construction Co., Inc.
    Bluefield, VA

71. Cox & Johnson Agency
    Fredericksburg, VA

72. Cruise Ventures, Inc.
    Norfolk, VA

73. Dai, Inc.
    Arlington, VA

74. Daniel Group, Inc.
    Danville, VA

75. DCS Corporation
    Alexandria, VA

76. Delta Electronics, Inc.
    Alexandria, VA

77. Design Electric, Inc.
    Charlottesville, VA

78. Development Ideas, Inc.
    Falls Church, VA

79. Digital Systems Resources
    Fairfax, VA

80. Display Services, Inc.
    Annandale, VA

81. DVA Inc.
    Glen Allen, VA

82. Dynamic Engineering, Inc.
    Newport News, VA

83. DynCorp
Reston, VA

84. E. W. Barger & Co.
Waynesboro, VA

85. Electronic Design & Mfg. Co.
Lynchburg, VA

86. Els Inc.
Chantilly, VA

87. Environmental Specialist, Inc.
Ashland, VA

88. Eric W. Portch, Inc.
Springfield, VA

89. ESOP Services, Inc.
Scottsville, VA

90. Experimental Pathology Labs, Inc.
Herndon, VA

91. F & M Bank Corp.
Timberville, VA

92. F & M National Corporation
Winchester, VA

93. Federal Computer Corp.
Falls Church, VA

94. First Bank & Trust Company
Lebanon, VA

95. First Colonial Savings Bank
Hopewell, VA

96. First Federal Savings Bank
Lynchburg, VA

97. First Federal Savings Bank of VA
Petersburg, VA

98. First National Bank of Christiansburg
Christiansburg, VA

99. Fox Welding Service
Alexandria, VA

100. Gala Industries, Inc.
Eagle Rock, VA

101. Gannett Co., Inc.
Arlington, VA

102. Ge-Fanuc Automation NA, Inc.
Charlottesville, VA

103. General Engineering Company
Abingdon, VA

104. General Kinetics, Inc.
Chantilly, VA

105. Genetics & Ivf Institute, Inc.
Fairfax, VA

106. Global Associates
Falls Church, VA

107. Green Gifford Motors
Norfolk, VA

108. Greenbrier of Virginia, Inc.
Chesapeake, VA

109. Greenwood Partnership, P.C.
Lynchburg, VA

110. Harris Agency, Inc.
Manassas, VA

111. Hooker Furniture Corp.
Martinsville, VA

112. Hoy Construction, Inc.
Norfolk, VA

113. Hunter Associates Laboratory, Inc.
Reston, VA

114. Icf Kaiser International, Inc.
Fairfax, VA

115. Ideas, Inc.
Woodbridge, VA

116. Information Planning Associates
Falls Church, VA

117. Information Systems Laboratories
Vienna, VA

118. Integrated Systems Analysts, Inc.
Arlington, VA

119. Intercon, Inc.
Forest, VA

120. Interealty Corp.
Vienna, VA

121. ITC, Inc.
Herndon, VA

122. J. H. Kim Associates, Inc.
Fairfax, VA

123. James A. Scott & Son, Inc.
Lynchburg, VA

124. James River Limestone Co., Inc.
Buchanan, VA

125. John H. Frischkorn, Jr., Inc.
Richmond, VA

126. K-Va-T Food Stores, Inc.
Grundy, VA

127. Kathleen Odell & Associates, Inc.
Martinsville, VA

128. Kempsville Building Materials, Inc.
Virginia Beach, VA

129. Kloke Enterprises, Inc.
Richmond, VA

130. L-J-S, Inc.
Falls Church, VA

131. LandAmerica Financial Group, Inc.
Richmond, VA

132. Lanford Brothers Company, Inc.
Roanoke, VA

133. Laurel Creek Nursery, Ltd.
Blacksburg, VA

134. Lawhorne Brothers, Inc.
Lynchburg, VA

135. Lea & Elliot, Inc.
Chantilly, VA

136. Life Bancorp, Inc.
Norfolk, VA

137. Liphart Steel Co., Inc.
Richmond, VA

138. M & M Floors, Inc.
Falls Church, VA

139. Marasco Newton Group, Ltd.
Arlington, VA

140. Marine Development Corporation
Mechanicsville, VA

141. Marine Hydraulics International
Norfolk, VA

142. Marshall Miller & Associates, Inc.
Bluefield, VA

143. Master Print, Inc.
Newington, VA

144. Mattern & Craig, P.C.
Roanoke, VA

145. McKinney & Company
Ashland, VA

146. Meadowbrook, Inc.
Shawsville,VA

147. Metro Machine Corporation
Norfolk, VA

148. Micromagnetics Systems, Inc.
Richmond, VA

149. Midsouth Building Supply, Inc.
Springfield, VA

150. Mildred M. Jett, Ltd.
Woodbridge, VA

151. Morgan-Marrow Company
Hampton, VA

152. MRJ, Inc.
Fairfax, VA

153. Mutual Savings Bank
Danville, VA

154. Mystech Associates, Inc.
Falls Church, VA

155. National Bank of Fredericksburg
Fredericksburg, VA

156. National Bankshares, Inc.
Blacksburg, VA

157. New River Electrical Corp.
Cloverdale, VA

158. Noland Company
Newport News, VA

159. Norfolk Shipbuilding & Drydock
Norfolk, VA

160. NVR, Inc.
McLean, VA

161. Old Dominion Insurance Services
Radford, VA

162. Omni Services, Inc.
Culpeper, VA

163. One Valley Bank - Central Virginia
Lynchburg, VA

164. Page Bankshares, Inc.
Stanley, VA

165. Payne Publishers, Inc.
Manassas, VA

166. Performance Food Group, Inc.
Richmond, VA

167. Petersburg Motor Co., Inc.
Charlottesville, VA

168. Petroleum Marketers, Inc.
Roanoke, VA

169. Plageman & Marella Sales, Inc.
Norfolk, VA

170. Planning Systems, Inc.
McLean, VA

171. Precision Fabricators, Inc.
Stuarts Draft, VA

172. Presearch, Inc.
Fairfax, VA

173. Preston Signs, Inc.
Falls Church, VA

174. Prillaman & Pace, Inc.
Martinsville, VA

175. Primark Corp.
McLean, VA

176. Prince Oil Company, Inc.
Christiansburg, VA

177. R. M. Vredenburg & Company
Reston, VA

178. Raco, Inc.
Gretna, VA

179. Raven, Inc.
Alexandria, VA

180. Recreational Resorts, Ltd.
Charlottesville, VA

181. Regional Enterprises, Inc.
Hopewell, VA

182. Rent-A-Car Company, Inc.
Richmond, VA

183. Reynolds Metals Company
Richmond, VA

184. Robert C. Boswell, Inc.
Bristol, VA

185. Ronile, Inc.
Rocky Mount, VA

186. Ross Industries, Inc.
Midland, VA

187. Rowe Furniture Corp.
Salem, VA

188. RST Marketing Association, Inc.
Forest, VA

189. Ruffin & Payne, Inc.
Richmond, VA

190. S C & A, Inc.
McLean, VA

191. S T Research Corp.
Newington, VA

192. Schnabel Engineering Associates
Ashland, VA

193. Second Bank & Trust Company
Culpeper, VA

194. Sentry Equipment Erectors, Inc.
Forest, VA

195. Sheldon Lumber Company, Inc.
Toano, VA

196. Shomo & Lineweaver Insurance
Harrisonburg, VA

197. Siddall Matus & Coughter, Inc.
Richmond, VA

198. Smith-Field Insurance Agency
Fairfax Station, VA

199. Smithfield Companies, Inc.
Portsmouth, VA

200. Southern Air, Inc.
Lynchburg, VA

201. Southern Atlantic Label Co., Inc.
Chesapeake, VA

202. Southern Refrigeration Corporation
Roanoke, VA

203. Southwest Virginia Savings Bank
Roanoke, VA

204. Southwestern Virginia Energy, Ltd.
Martinsville, VA

205. Stanley Associates, Inc.
Alexandria, VA

206. Star Equipment Corporation
Richmond, VA

207. Steel Services, Inc.
Richmond, VA

208. Sterling Blower Company
Forest, VA

209. Sterling Carpet Shops, Inc.
Sterling, VA

210. Structural Systems Technology, Inc.
McLean, VA

211. Summit Helicopters, Inc.
Cloverdale, VA

212. Synectics Corporation
Fairfax, VA

213. T A Associates, Inc.
Falls Church, VA

214. Tarrance & Associates, Inc.
Alexandria, VA

215. Taylor Brothers, Inc.
Lynchburg,VA

216. Techlaw, Inc.
Chantilly, VA

217. Thomas Rutherford, Inc.
Roanoke, VA

218. Thor, Inc.
Roanoke, VA

219. Tidewater Supply Company
Roanoke, VA

220. Tygart Moulding Corporation
Charlottesville, VA

221. Tysons Financial Corporation
McLean, VA

222. Unified Industries, Inc.
Springfield, VA

223. Union Bank & Trust Company
Bowling Green, VA

224. United Sprinkler Company, Inc.
Fredericksburg, VA

225. US Air, Inc.
Arlington, VA

226. Utility Construction, Inc.
Fairfax Station, VA

227. Valley Rich Dairy
Roanoke, VA

228. Vance International, Inc.
Oakton, VA

229. Vaz, Inc.
Newport News, VA

230. Veda Incorporated, Inc.
Alexandria, VA

231. Versar, Inc.
Springfield, VA

232. Vinod K. Trehan
Midlothian, VA

233. Virginia Beach Federal Savings
Virginia Beach, VA

234. Virginia Community Bankshares
Louisa, VA

235. Virginia Impression Products, Inc.
Richmond, VA

236. VSE Corporation
Alexandria, VA

237. W. C. Spratt, Inc.
Fredericksburg, VA

238. Walmer Enterprises, Inc.
Alexandria, VA

239. Watters & Martin, Inc.
Norfolk, VA

240. Wendys of Western Virginia, Inc.
Roanoke, VA

241. Widener Corporation
Virginia Beach, VA

242. Williams Supply, Inc.
Roanoke, VA

243. Willis Felton of Richmond, Inc.
Richmond, VA

244. Worldcorp, Inc.
Herndon, VA

245. Zimmerman & Associates, Inc.
Vienna, VA