

TESTIMONY ON

LD1520 – AN ACT TO CREAT AND SUSTAIN JOBS THROUGH DEVELOPMENT OF COOPERATIVES AND EMPLOYEE-OWNED BUSINESS

Presented and Submitted by
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Senator Chipman, Representative Tipping, Honorable Members of the Taxation Committee. It is my pleasure and great enthusiasm that I am here today to support the adoption of LD 1520. Thank you for your service and this time to speak to something that I and thousands of Mainers are passionate about. While I am thanking folks, I would also like to thank Senator Libby and all of the bill's co-sponsors for their support.

My name is Mark Adams and I am President/CEO of Sebago Technics, a proud 100% employee-owned engineering consulting company located in South Portland. I am also here as a Past President of the New England Chapter of the National ESOP Association and a founding participant of the Maine ESOP Group. But most importantly and with most relevance I am here as an employee-owner representing more than 75 employee owners at our company and thousands of employee owners across the state.

Employee Ownership is not well-known nor often not well understood. However, at its core it is a very simple concept...*ownership of an enterprise by those most impacted and most able to determine its success*. Employee owners understand that our collective success leads to our individual success and vice versa. In an ESOP the hard work of employees and the financial rewards that come from that work accrue to the employees because they ^{own} ~~won~~ the company. There isn't any greater incentive, any greater sense of engagement and ownership in what you do than to be working for your own benefit.

Before I share with you more thoughts about ESOPs and in particular ESOPs in Maine, I want to offer a brief explanation of ESOPs. Employee Stock Ownership Plans have been around for decades. They are enabled by federal law and as such are regulated by the IRS and the US Department of Labor. This is important to understand so as not to think they are custom creations of the more than 6,500 ESOPs in the U.S. with more than 10 Million participants. Fundamentally an ESOP is a retirement plan that functions very much like a 401k. Participant account values are tax-deferred until they withdraw or take distributions and they receive annual statements of the value of their accounts. The differences are that participants don't contribute any of their own monies, instead the shares are given to them by the company – more specifically the trust that owns the

shares. The value of the shares is independently determined annually. When an employee retires or leaves the company, the company owes and pays the employee the then value of those shares. Though there are obviously more administrative and sometimes complicated details this description basically captures the function of an ESOP as a retirement plan.

While the retirement benefit and function of an ESOP is wonderful, many ESOPs would argue that the culture of ownership in an ESOP is really the biggest benefit. While many great companies have great cultures and great employees, employee-owned companies have employees that have an extra sense of pride, engagement and ownership in what they do, in the services or products provided and in the future of the company. From young to no so young, our experience is that employee-owners in ESOPs are enthused about the work they do and how their work is connected to the success of the company. Employee owners understand, and good ESOPs reinforce, that it is employees, not companies, who make a company successful, its employees who deliver services and make products, its employees who have relationships with customers and it is therefore employees who should benefit from their skills, experience, efforts and outcomes.

Sebago Technics was started in 1981 by Walter P. Stinson, a graduate of the University of Maine. He, like many entrepreneurs, began at his kitchen table with his wife requesting that he clear plans and reports from the kitchen table so that the family could have dinner. Walt worked hard and quickly gained a well-earned reputation, hired more Mainers and served hundreds then thousands of Maine property owners, businesses, contractors, developers and communities. By the mid-1990's Sebago had grown into a multi-discipline engineering firm providing civil engineering, land surveying, landscape architecture, CAD, environmental sciences and more. Though Walt was more than a dozen years from retirement age he began to think about ownership succession. He explored the common options, sale to another firm (often larger and headquartered out of state), sale to one or two current employees or simply running the business till retirement then closing it. But during his search he came upon Employee Stock Ownership Plans. He sought ESOP experts and the advice of other ESOPs, such as Cianbro. After studying he determined that an ESOP was the best choice for one compelling reason. Walt concluded that the success of the company was due to the work of its employees and it was those employees who should reap the benefits going forward. Thus in 1998, Sebago Technics became one of a very few ESOPs in Maine. Today, over 20 years later Sebago Technics stands as one of Maine's largest engineering consulting firms with tenured employees who are proud owners of not only the company but also six figure ESOP accounts.

A few years ago, Moody's Collision and Sebago Technics noticed that the growth of ESOPs in Maine was on the rise. In fact, over the past 5 years, we estimate that the number of ESOPs in Maine has grown from 15-16 to approximately 50. ESOPs in Maine now represent every corner of the state from Fort Kent to Kittery. Maine ESOPs

cover every industry from construction to engineering, financial services to agriculture and manufacturing to technology. Maine ESOP companies represent some of our best-known brands and recognizable businesses. Companies such as Cianbro, Sargent, Reed and Reed, Landry French, Daigle Oil, Johnny's Seeds, Revision Energy, Clark Insurance, Portland Air Freight, Dennis Paper, Howell Labs, Lanco, and dozens more. To recognize the growth of ESOPs in Maine, lend support to new ESOPs, encourage more ESOPs and to provide a mechanism for employee owners to network and share ideas, we created the Maine ESOP Group. It is an informal group of small, medium and large companies with only three things in common. 1. We are all Maine-based. 2. We are all ESOPs. and 3. We all believe in the power and potential of employee ownership. We have been meeting and sharing information and resources for over three years. LD 1520 would be a great step to solidifying our efforts, raising awareness of the ESOP model and incentivizing its further growth. Passage of LD 1520 would place Maine at the head of the class with other states such as Vermont, Pennsylvania and Ohio where state centers for employee ownership have helped grow, inform and sustain employee ownership.

In my view, passage of LD 1520 would not only support the growth of ESOPs and Cooperatives in Maine but it would recognize, at the highest level in our state, that cooperatives and employee ownership is about redistribution of wealth. It would codify that Maine businesses being owned and operated by Maine people is the best way to secure our future. It would acknowledge that employees should benefit from their work with more than just a paycheck. In these ways it would harken back to the beginnings of business in Maine where most folks were self-employed, where their destiny and success was in proportion to their contributions.

I urge your support for LD 1520 and for the future of employee ownership in Maine. As you work through your deliberation of the bill I and other Maine ESOPs would be happy to share our experience and knowledge to help inform you and to creating a broader understanding of the benefits of employee ownership. Thank you.

The ESOP Association Data:

- Since 2000,
- During the Great Recession, ESOP companies on average laid off fewer employees.
- 75+% of ESOP companies increased employee compensation at or above the national average.
- More than ½ of all ESOPs contributed more than 11% of employee compensation to the ESOP far outpacing the 401k match average nationally.
- Research reveals that ESOPs have had an overwhelmingly positive effect on company culture
- More than 67% of ESOP's indicate that the ESOP improved overall productivity
- Finally, nearly 95% of ESOP companies indicate that the decision to become an ESOP was a very good decision.