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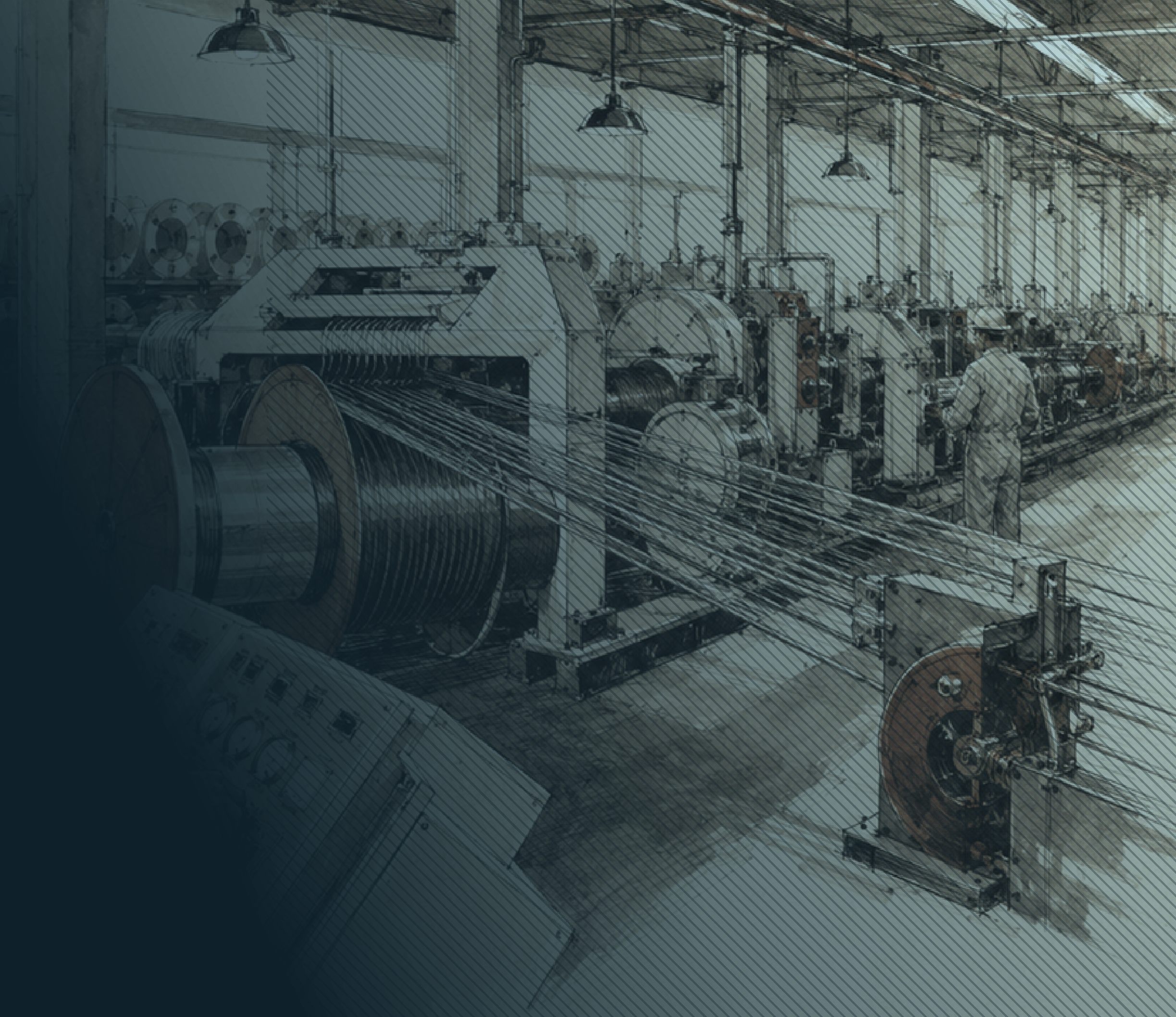

POLICY BRIEF

EMPLOYEE OWNERSHIP AS ECONOMIC DEVELOPMENT

A Development Finance Playbook for States · In Brief

Julien Rosenbloom · September 2026

Business succession is the largest economic development risk most states are not yet managing.

6M	92%	6,500
small and medium-sized businesses changing hands by 2035, holding as much as $5 trillion in enterprise value	of the roughly 510,000 small businesses that exited the market in 2022 closed outright; just 5 percent were sold	ESOPs nationwide, with new plan formation averaging just 269 per year for a decade

THE PROBLEM

The United States is entering the largest transfer of business ownership in its history. Every closure takes with it jobs, the state's tax base, supplier relationships, and productive capacity that no business attraction strategy can win back.

POLICY SOLUTIONS

Employee ownership is a proven response built precisely for this exposure. Five decades of evidence show that employee-owned firms grow faster, lay off fewer workers in downturns, default less often, and build substantial retirement wealth for workers who contribute no capital of their own, all while keeping ownership and decision-making anchored in the communities where these firms operate. The model has advanced under Republican and Democratic presidents and governors alike. And yet it remains rare, with roughly 6,500 ESOPs nationwide and new plan formation averaging just 269 per year for a decade.

As states consider the right toolkit to expand employee ownership, they do not need to invent anything. In 1976, a federal Economic Adjustment Assistance grant to New Jersey was re-lent by the state's development finance authority to the employees of the Okonite Company; the loan was repaid, the fund revolved ninefold, and Okonite remains 100 percent employee-owned today. On September 4, 2026, New Jersey returned to that model: Governor Mikie Sherrill signed legislation (P.L.2026, c.83) directing NJEDA to establish an Employee Ownership Transition Program and a dedicated Employee Ownership Revolving Loan Fund, capitalizable from state appropriations, federal funds, philanthropic capital (whether grants or recoverable investments such as PRIs), and the Authority's own program revenue. This playbook outlines how to build that capacity with better tools than 1976 had: a federal authority expressly written for the purpose, a maturing private market of specialized employee ownership funds, and five decades of evidence on how these companies perform. It outlines a state finance toolkit composed of four complementary instruments: transaction-level capital, credit enhancements and cost-of-capital tools, institutional capital mobilization, and tax incentives.

THE CAPITAL GAP

The growth of employee ownership is constrained in part by a lack of access to capital. Because employees bring no capital of their own to an employee ownership transaction, a sale to them must be financed against the company's own cash flow, and in the status quo, the gap between what a lender will provide and the purchase price falls to the seller, who takes back a deeply subordinated note and waits years to be paid. Compared to a strategic or financial buyer paying the full price at closing, that is not a competitive value proposition. Employee ownership finance policy therefore has two objectives that must be pursued together: give the selling owner liquidity on par with any other buyer and minimize the cost of capital to the employee-owned firm.

THE STATE TOOLKIT

Four complementary strategies, eight instruments

The table below maps the toolkit against the objectives of employee ownership finance policy. No single instrument serves every objective, underscoring the need for states to assemble a toolkit rather than selecting a single tool.

TABLE 1

Objectives of employee ownership finance

POLICY OBJECTIVE	REVOLVING LOAN FUND	LOAN PARTICIPATION	LOAN LOSS RESERVE	LOAN GUARANTEE	COLLATERAL SUPPORT	RATE BUYDOWN / LINKED DEPOSIT	FUND OF FUNDS	TAX INCENTIVES
Enable seller liquidity on par with private equity and strategic alternatives	✓	✓					✓	✓
Create competitive risk-adjusted returns for investors			✓	✓	✓		✓	
Minimize the cost of capital to the employee-owned firm	✓	✓	✓	✓	✓	✓		✓
Create long-term sustainability for the employee-owned firm	✓					✓	✓	✓

Source: adapted from Jack Moriarty's presentation at the 2026 Mid-Year Fellows Workshop in Honor of Louis O. Kelso hosted by the Rutgers Institute for the Study of Employee Ownership and Profit Sharing; chapter 4 of the playbook. Note: check marks indicate the objectives each instrument serves; empty cells indicate the instrument does not serve that objective.

Treated separately, each transaction-level tool addresses one layer of an employee ownership loan. Deployed together, and combined with the credit enhancements of the next section, they enable a development finance agency to assemble the competitive financing that today only the rare and patient seller can provide.

THE STATE TOOLKIT

The instruments in brief

Revolving loan fund

A revolving loan fund is among the oldest and most legible tools in American development finance, and the simplest to describe: a pool of capital held by a public lender that makes loans, collects repayments into the same pool, and then lends the money out again.

Loan participation

In a loan participation, the state lends alongside a private lender on a single transaction, either purchasing a share of the loan or originating a companion loan.

Loan loss reserve

A loan loss reserve is the portfolio-level tool (often called a Capital Access Program) in which the borrower and lender (and sometimes the state) contribute a small premium on a loan into a reserve that the lender draws against in the event of a loan default.

Collateral support

Collateral support addresses the reason that lenders cap the size of a senior loan in an employee ownership transaction, which is the shortage of collateral that would otherwise securitize the loan.

Loan guarantee

The loan guarantee is perhaps the most familiar credit enhancement and, for a state with limited capital to deploy but a willingness to stand behind private lending, among the most efficient. The state guarantees a defined share of a private lender's loan: if the borrower defaults, the state pays that share after the lender has pursued its ordinary remedies.

Rate buydown and linked deposit

An interest rate buydown addresses the second of the twin objectives of employee ownership finance policy: it lowers the cost of capital to the new employee owners. The state pays a lender as a lump sum into escrow at closing or a stream over a set period in exchange for a reduced rate to the borrower.

Fund of funds

A fund-of-funds invests not in individual companies but in other investment funds. The state commits as LP, the fund-of-funds commits to a portfolio of specialized underlying funds, and those funds make the individual investments, with layers of professional management between the state's balance sheet and any single deal.

Tax incentives

They put no dollar directly into the transaction, but instead change the post-tax math of the decision to sell.

`State precedents for each instrument appear in Tables 2 and 6 of the playbook; design considerations, underwriting standards, and pricing guidance appear in chapter 4.`

PAYING FOR IT

Capitalization sources

This chapter surveys the range of capitalization sources available to states across their toolkit. Each tool can be funded only by certain sources, as each source differs in the conditions attached to it and the problem it is trying to solve.

SSBCI is the most durable and flexible federal capitalization source, but it comes with real constraints due to its conditions on what types of programs it can fund and the amount of private capital it must crowd in.

TABLE 9

Capitalization sources for state toolkit

CAPITALIZATION SOURCE	REVOLVING LOAN FUND	CREDIT ENHANCEMENT	FUND-OF-FUNDS	CONSTRAINTS
State appropriation	✓	✓	✓	Competes with all other spending priorities
EDA Economic Adjustment Assistance	✓			20-50 percent non-federal match; distress finding; RLF plan, 2:1 leverage
SSBCI	(✓)	✓	✓ (equity/VC)	Cannot capitalize a freestanding fund and requires private capital match
State investment portfolio			✓	Fiduciary obligations; must earn a market return
Program income/inter-fund transfers	✓	✓	✓	Agency earnings and board action
Released legacy EDA capital	✓			Must continue to serve an economic development purpose
Philanthropic (grant/PRI/MRI)	✓	✓ (first-loss)	✓ (MRI)	The tool's return profile dictates the instrument

Source: chapter 6 of this playbook. Note: check marks indicate an eligible pairing; the parenthetical check marks SSBCI's functional (not mechanical) reach; empty cells indicate the source cannot fund the instrument.

WHERE IT LIVES

Institutional capacity

The first is a Director of Employee Ownership (or an office led by the director), which is a designated, accountable official within state government (ideally at the development finance agency) whose job is coordinating the toolkit and elevating the profile of employee ownership within the state. The Director serves as the state's single point of contact for a business exploring employee ownership, administers the financing programs, coordinates across other state agencies that hold pieces of the toolkit, and ultimately drives the employee ownership pipeline the tools exist to grow. Because the success of the toolkit in large part rests on the Director's remit, the role must have real authority to administer and coordinate programs, not just a mandate to promote employee ownership through outreach and education (and to the extent the latter is a function of the role, it ought to be in close coordination with the state's center for employee ownership where one exists).

The second authority is a standing advisory commission, whose purpose is to advise the Director/office, elevate the voices of key employee ownership stakeholders (including employee owners themselves) in decision-making and design, and keep the program durable across administrations.

WHERE STATES HAVE PLACED EMPLOYEE OWNERSHIP PROGRAMS

- Colorado placed its Employee Ownership Office and advisory commission inside of the state's Office of Economic Development and International Trade, which is functionally Colorado's development finance agency.
- Washington's 2023 legislation established the Washington Employee Ownership Program (WA-EOP) at the state's Department of Commerce, with a director, a bipartisan advisory commission, a feasibility assessment and implementation tax credit, and an authorized revolving loan fund contingent on federal capital. Funded by annual appropriation, the program lost its funding in the 2025 budget and ended on June 30, 2025; the statute remains, subject to appropriation.
- Massachusetts split the functions, creating a legislatively authorized state center for employee ownership inside of its business development office, with the authorized revolving loan fund at MassDevelopment.
- New Jersey's employee ownership programs, including feasibility study reimbursements, an Advisory Committee on Employee Ownership, and the Employee Ownership Revolving Loan Fund, all enacted in 2026, are housed in the New Jersey Economic Development Authority (NJEDA).

TABLE 10

The state development finance toolkit by agency

TOOL	IDEAL PLACEMENT	RATIONALE
Revolving loan fund; credit enhancement	Development finance agency	Balance sheet, underwriting, board governance, bank relationships
Fund-of-funds; linked deposits	State treasurer	Controls the investment portfolio and cash deposits; fiduciary mandate; private markets staff
Tax incentives	Legislature (enacts); revenue department (administers)	Taxing authority
Technical assistance, outreach, education	State employee ownership center or office	Field-facing technical assistance capacity

Source: chapter 7 of this playbook. Note: placements reflect the capacities each agency already holds.

IMPLEMENTATION ROADMAP

Sequencing the strategy

1 On-ramp with administrative authorities

Begin with what a state can do administratively, usually the SSBCI carve-in and employee ownership eligibility in existing credit enhancement programs, and occasionally an office/director by executive action and feasibility study/outreach/technical assistance programs. These can happen within a year, generally cost little, and generate a pipeline for states to prove the concept and a constituency of employee-owned businesses, employee owners, lenders, and advisors who become the program's advocates.

2 Programmatic core with legislative authorities

Once all or some of the above elements are established, legislators should author and introduce comprehensive legislation that achieves some combination of establishing a revolving loan fund, a fund-of-funds, tax incentives, and the permanent codification of governance. This is far easier to do after a state has already provided credit enhancements or technical assistance to employee-owned businesses, as it will have already preserved companies and jobs in legislative districts and built political support in the process.

3 Durability

Once both the administrative on-ramp and legislative avenues have been pursued, the task of the development finance agency and its government partners is to ensure the program is largely self-sustaining through some combination of the sources identified in Chapter 6.

TABLE 13

Administrative and legislative pathways for the state toolkit

GENERALLY ADMINISTRATIVE	GENERALLY LEGISLATIVE
SSBCI EO carve-in within existing programs	Tax incentives
EO eligibility in existing credit enhancement programs	A dedicated, capitalized revolving loan fund
Applying for an EDA Economic Adjustment Assistance grant to capitalize an EO RLF	A fund-of-funds vehicle
An EO office, director, or commission by executive order	Codification of office, director, or commission
Redeploying released legacy EDA capital	
Feasibility/outreach/technical assistance programs	

Source: chapter 9 of this playbook. Note: pathways are generalized; authorities are state-specific.

The succession wave will not recur at this scale for a generation, and it will resolve either by default or by design. The states that build this capacity will retain their anchor businesses, broaden ownership, and help decide who owns the next era of American enterprise.

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