

2025 -- H 5940

LC001857

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2025

A N A C T

RELATING TO LABOR AND LABOR RELATIONS -- THE RHODE ISLAND
OPPORTUNITY FOR EMPLOYEE OWNERSHIP ACT

Introduced By: Representatives Stewart, J. Lombardi, Voas, Tanzi, Morales, Cruz, Potter,
Alzate, Cotter, and Casimiro

Date Introduced: February 28, 2025

Referred To: House Labor

It is enacted by the General Assembly as follows:

1 SECTION 1. Title 28 of the General Laws entitled "LABOR AND LABOR RELATIONS"

2 is hereby amended by adding thereto the following chapter:

3 CHAPTER 61

4 THE RHODE ISLAND OPPORTUNITY FOR EMPLOYEE OWNERSHIP ACT

5 **28-61-1. Definitions.**

6 As used in this chapter, the following words shall have the following meanings unless the
7 context clearly requires otherwise:

8 (1) "Employee-owned business" means:

9 (i) An employee cooperative corporation organized under title 7; or

10 (ii) A limited liability company (LLC) or limited liability partnership (LLP), in either case,
11 whose bylaws, operating agreement or partnership agreement, as applicable, meets the following
12 requirements:

13 (A) All persons who meet the definition of employee-owner ("worker-owner") according
14 to the bylaws, operating agreement or partnership agreement of the business are voting members
15 of the company, and have equal voting rights in all decisions brought before the membership; and

16 (B) Any profits distributed to said worker-owners by the company are distributed on the
17 basis of their patronage in the company, with patronage measured based on the labor supplied to
18 the company.

1 (2) "Employee-owned business resource list" means a list of local and regional entities
2 qualified to offer guidance with starting, converting, or maintaining an employee-owned business.
3 Such an employee-owned business resource list shall be created and maintained by the secretary of
4 state's office, publicly visible and searchable on their website, available as a printable document,
5 and updated on a regular basis.

6 (3) "Owner" means the owner(s) of a qualified business prior to a qualified business sale.

7 (4) "Qualified business" means an entity that:

8 (i) Has operated a principal place of business in Rhode Island for at least one year;

9 (ii) Is a taxpayer subject to Rhode Island tax pursuant to title 44, but not limited to a C
10 corporation, S corporation, limited liability company, partnership, limited liability partnership, or
11 a sole proprietorship;

12 (iii) Is a privately held business;

13 (iv) Has at least three (3) workers not including the owner, or other similar pass-through
14 entity;

15 (v) Meets the relevant size standards for a small business by industry, as set forth by the
16 U.S. Small Business Administration in 13 CFR§ 121.201;

17 (vi) Is not a medium or large business as defined by the U.S. Small Business
18 Administration; and

19 (vii) Is not a publicly traded company.

20 (5) "Qualified business sale" means any transaction between the owner of a qualified
21 business and a QEG that concludes in the qualified business becoming an employee-owned
22 business or at least a fifty-one percent (51%) increment of total ownership of the qualified business
23 being transferred to an employee-owned business. Such transactions shall not include transfers by
24 inheritance, nor transfers or sales to immediate family, defined as siblings, spouses and/or children.

25 (6) "Qualified employee group (QEG)" means a group containing at least a simple majority
26 of full-time and/or part-time workers at the qualified business, totaling a minimum of three (3), at
27 the point of formal notice of business sale by the owner to workers.

28 **28-61-2. Sale of a qualified business**

29 (a) In the event the owner of a qualified business decides to sell such qualified business or
30 at least a fifty-one percent (51%) increment of total ownership of such qualified business in an
31 equity sale, they shall notify all current full-time and part-time workers at the business within seven
32 (7) days of the decision in a dated written notice. Such notice shall be posted on the date listed in
33 the notice in a prominent location to which all workers have access, or if no such place exists, via
34 an existing electronic medium used to communicate with workers. The notice shall communicate:

- 1 (1) Date of the notice;
- 2 (2) The owner’s intent to sell the business;
- 3 (3) Information about the existence of the opportunity to own law, specifying that
4 employees have an exclusive opportunity for thirty (30) days from the written notice to officially
5 initiate a process to potentially purchase the business as an employee group, as outlined in that law;
- 6 (4) Information about the secretary of state's employee-owned business resource list,
7 including the URL or website, if applicable, and specifying the employee-owned business resource
8 list as a resource to assist employees considering buying the business; and
- 9 (5) Any price the owner of the qualified business proposes for the business sale.
- 10 (b) In the event a QEG does not purchase one hundred percent (100%) of total ownership
11 of the qualified business, such as where owners or other parties retain or purchase a stake in the
12 business, the provisions of this section shall apply only if the QEG holds the sole voting rights and
13 decision-making power in the resulting business. Sales of the qualified business that include
14 agreements infringing on this requirement for democratic governance by worker-owners shall
15 nullify the benefits to the owner from this section.
- 16 (c) Any group of workers that is eligible to form a QEG has thirty (30) days from the date
17 the owner’s notice was posted or upon the workers’ electronic receipt thereof, to signal in writing
18 via registered mail to the owner their intent to compete to buy the qualified business, and list all
19 members of the QEG. The owner shall immediately make available any financial records necessary
20 for evaluating the health and value of the business, following the signing of a non-disclosure
21 agreement between the owner and the QEG. If, after thirty (30) days, no QEG has signaled interest
22 in a purchase, the owner shall be free to sell the business as they choose.
- 23 (d) From the date any QEG signals intent to buy the business, the owner and the applicable
24 QEG shall have one hundred eighty (180) days to have the value of the business assessed by a
25 qualified independent business valuation consultant agreed to by the owner and the QEG, and to
26 reach agreement on a price; or alternatively, if a competitive good-faith offer is made by a third
27 party, the QEG shall have the opportunity to match that offer.
- 28 (e) In the event the owner and QEG reach a price that is equivalent or superior to all other
29 good-faith offers received on the open market within the one hundred eighty (180) day period, the
30 owner shall be obligated to sell the business to the QEG; however, the highest bid need not be the
31 winning bid, and the owner may sell to a QEG for reasons other than preferring the highest bid.
- 32 (f) In the event of a completed qualified business sale, the owner shall be exempted from
33 obligation under § 44-30-2.7, to pay the state capital gains tax on any gains from the sale of the
34 qualified business under one million dollars (\$1,000,000). Any gains from the sale of the qualified

1 business over one million dollars (\$1,000,000) shall continue to be subject to the relevant capital
2 gains tax. In the event of a partial sale of the qualified business to the QEG, this exemption shall
3 apply only to the proportion of the business being sold to the QEG.

4 (g) All labor union membership or collective bargaining agreements existing prior to a
5 qualified business sale shall continue to be in effect under the new ownership structure.

6 (h) Upon the completion of a qualified business sale, the resulting business shall not be
7 subject to external governance, decision-making or management influence from non-worker or
8 non-member parties, including non-member shareholders or outside investors. Any contract
9 enabling control of the company by outside investors shall not be in compliance with this section.

10 (i) In the event that the owner of a qualified business fails to comply with the terms of this
11 section, the QEG shall have the right to request a court injunction to stop such improper sale and
12 require compliance with this section.

13 **28-61-3. Communication notices.**

14 On the effective date of this chapter, within sixty (60) days, the secretary of state's office
15 shall send communication notices both via paper mail and electronic mail, if possible, to any entity
16 actively doing business in the State of Rhode Island which may potentially be in the category of
17 "qualifying business" as defined in this chapter. The communication notice shall contain a summary
18 of this law, and shall include an additional notice in locally used languages stating the importance
19 of having the information translated. The communication notice shall also contain reference to the
20 employee-owned cooperative business resource list, including other information regarding where
21 it can be found on the secretary of state's website. After such initial communication notice from the
22 secretary of state's office, the same communication notice shall be sent to existing businesses each
23 year via electronic or paper mail, as well as to new businesses upon incorporation. Implementation
24 of this chapter shall be considered effective sixty (60) days after communication notices are sent to
25 Rhode Island businesses, after which time any qualifying business shall be obligated to follow the
26 provisions of this chapter.

27 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF

A N A C T

RELATING TO LABOR AND LABOR RELATIONS -- THE RHODE ISLAND
OPPORTUNITY FOR EMPLOYEE OWNERSHIP ACT

1 This act would establish an opportunity for employee ownership and the process whereby,
2 if the owner of a qualified business decides to sell said business or at least fifty-one percent (51%)
3 of said business, the owner would notify all current full-time and part-time workers within seven
4 (7) days of the date of the decision.

5 This act would take effect upon passage.

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