



March 19, 2025

Hon. Arthur J. Corvese
Chairman, House Labor Committee
Rhode Island State House
82 Smith Street
Providence, RI 02903

RE: H5940 - AN ACT RELATING TO LABOR AND LABOR RELATIONS - THE RHODE ISLAND OPPORTUNITY FOR EMPLOYEE OWNERSHIP ACT

Dear Chairman Corvese and Honorable Members of the Committee:

As the Executive Director of Rhode Island Business Leaders Alliance (the “Alliance”), I am grateful for the opportunity to provide the House Labor Committee with this written testimony in response to H5940 - AN ACT RELATING TO LABOR AND LABOR RELATIONS - THE RHODE ISLAND OPPORTUNITY FOR EMPLOYEE OWNERSHIP ACT, which incentivizes employee ownership by creating a mechanism pursuant to which qualified businesses are required to provide notice to employees of the owner’s decision to sell the business (or at least fifty-one percent (51%) of the total ownership of the business) and initiate a process pursuant to which an employee group could purchase the business.

The Alliance is a group of Rhode Island business leaders, trade associations, and educational institutions who are concerned about seeing the Ocean State ranked at the bottom of national business climate surveys year after year and want to do something about it. We have come together in an unprecedented alliance with a positive, forward-looking vision for our state: to revitalize Rhode Island’s struggling economy and to create broad-based economic growth and opportunity for all Rhode Islanders. Our group’s ambitious goal is nothing short of the wholesale transformation of Rhode Island into a national model of economic competitiveness.

Newport Restaurant Group (“NRG”) is one of the largest and most successful businesses in Rhode Island. Between 1980 and 2019, NRG grew into a \$82 million operation with 13 restaurants in Rhode Island and Massachusetts, a boutique hotel, and an event space. NRG is also proud to be one-hundred percent employee owned—proof that giving employees a personal

financial stake in the success of a business has immense potential. Employee ownership deepens employee engagement because employees view the company as their own.¹

Based on the tremendous success of NRG, the Alliance supports common sense legislative efforts to increase the number of employee owned companies in Rhode Island. However, we want to ensure that efforts to publicize and promote employee ownership are successful and take into consideration the important interests of business owners in consummating a sale to a qualified buyer quickly and discreetly.

The Alliance cannot support H5940 in its current form for the following reasons:

1. ***H5940 is an unfunded mandate:*** H5940 does not include a dedicated funding source to develop and maintain the Rhode Island Secretary of State's resources to assist potential employee-owners who are contemplating coming together as a qualified employee group to purchase a business. In January 2025—before the Trump Administration announced hundreds of millions of dollars of cuts in Medicaid funding that, if implemented, will have a devastating impact on Rhode Island's finances—House Speaker Shekarchi laid out his legislative priorities for the 2025 session. In his public remarks, Speaker Shekarchi stated clearly and unequivocally that there is no money in the FY 2026 state budget for ambitious new programs such as this. In fact, Speaker Shekarchi stated that existing programs may need to be scaled back or scrapped entirely.

Due to the significant structural deficits facing Rhode Island in the years to come, it is irresponsible to create a mandatory employer sale notice and employee purchase process without providing potential employee-owners with the tools and resources that they need to properly evaluate a business and make a successful purchase offer in a timely fashion. In Massachusetts, the employee ownership center that was part of the state government was unfunded for two decades because legislators were unable to identify a funding source. Between 1999 and 2019, the center had no funds available to assist potential employee-owners.

2. ***Locking business owners into an exclusive and lengthy notice and purchase process may cause faltering businesses to collapse:*** H5940 contains a detailed procedure pursuant to which the owner of a qualified business must provide written notice to all current full-time and part-time employees of their decision to sell the business (or a majority interest) within seven (7) days of the decision. This notification triggers a thirty (30) day period during which employees have an exclusive opportunity to initiate a process to potentially purchase the business. If a qualified employee group provides

¹ <https://medium.com/fifty-by-fifty/employee-ownership-drives-success-at-newport-restaurant-group-bdd21a6f183b>
(Last accessed March 19, 2025)

written notice to the business owner of its intent to purchase the business, this notification triggers an additional one-hundred and eighty (180) period during which the business owner and the employee group must have the value of the business assessed by a qualified independent valuation consultant to reach an agreement as to price.

When a business is experiencing serious financial distress, it must move quickly to avoid bankruptcy or receivership. By locking business owners into an exclusive and lengthy notice and purchase process, H5940 deprives business owners of the flexibility that they need to take all necessary and appropriate steps to preserve the business as a going concern—including a sale to a ready, willing, and able purchaser that is willing to forgo lengthy due diligence and valuation processes to consummate the sale. Without including an exception for faltering businesses, H5940 may cause a faltering business to go under while the business owner and the group of potential employee-owners values the business—a process that could take longer than one hundred and eighty (180) days due to the lack of business valuation experts in Rhode Island. By the time the business valuation has been completed, there may be no business for the potential employee-owners to purchase.

3. ***Requiring business owners to publicly disclose the sale price of the business and to provide employees with highly-sensitive financial records may cause irreparable harm:*** H5940 requires business owners to include “[a]ny price the owner of the qualified business proposes for the business sale” in the notice that must be provided to all current full-time and part-time employees within seven (7) days of the owner’s decision to sell. If a group of potential employee-owners responds to the written notice and expresses its intent to purchase the business, the business owner must “immediately make available any financial records necessary for evaluating the health and value of the business, following the signing of a non-disclosure agreement between the owner and the qualified employee group.”

Requiring a business owner to disclose publicly the sale price for the business and to divulge highly-sensitive financial information to all employees in the “qualified employee group” is, simply put, misguided and a recipe for disaster. A business in financial distress may not want to advertise to its competitors the fact that it is going to market for a “fire sale” price. Additionally, an employee in the “qualified employee group” who does not understand or appreciate their legal obligations under a non-disclosure agreement may inadvertently disclose confidential, proprietary, or trade secret information of the business or third parties, causing potentially irreparable harm to the business’ relationships with its customers, suppliers, vendors, and potential investors. For efforts to incentivize employee ownership to succeed, heightened protections must be

put in place to protect qualified businesses from the potentially irreparable harms described herein.

The Alliance stands ready to work with key stakeholders in labor, business, and finance to identify alternate funding sources that do not involve new taxes and to establish best practices for employee ownership in Rhode Island. The Alliance wants to balance the legitimate interests of potential employee-owners in learning about the financial condition of a business with the legitimate interests of business owners in maintaining the flexibility they need to respond to rapidly changing economic conditions and to prevent improper disclosure and use of confidential, proprietary, and trade secret information.

Thank you for your time and consideration, and please feel free to contact me to continue this important conversation.

Respectfully submitted by:

Gregory Tumolo

Gregory Tumolo, Executive Director
Rhode Island Business Leaders Alliance