



### Who We Are

The Employee-Owned Contractor Roundtable (ECR) is a coalition of federal government contractors organized as private subchapter S corporations wholly-owned through an employee stock ownership plan (ESOP). ECR member companies provide products and services for the U.S. Government, from manufacturing engines and timing belts to developing some of the most advanced combat simulators and sonar detection technologies. ECR members can be located across the entire United States, playing critical roles in several sectors of the American economy.

Since employee-owned companies provide significant benefits to the U.S. economy and unique advantages to rank-and-file workers, the federal government has supported and promoted ESOPs for decades through various growth mechanisms, specifically through tax policy. ECR members believe it is time to modernize federal contracting regulations to align with existing federal pro-ESOP objectives by advancing policies to support and expand employee ownership within the federal contracting arena.

### What is a Private, Subchapter S ESOP?

A Subchapter S corporation is a business entity that provides flow-through tax treatment to its shareholders. An ESOP is a qualified defined contribution plan that provides a company's workers with retirement savings through their investments in their employer's stock, *at no cost to the worker*. ESOPs are regulated by the Department of Labor under the Employee Retirement Income Security Act ("ERISA") just like pension funds, 401(k) plans, and other qualified retirement plans. Congress authorized the S corporation ESOP ("S ESOP") structure over two decades ago to encourage and expand retirement savings by giving hundreds of thousands of American workers in all 50 states the opportunity to have equity in the companies where they work.

### Why America Benefits from Supporting ESOP-Owned Companies

As employee ownership in America has grown, employee-owned businesses have consistently provided the economy, their workers, and their customers with unique and tangible benefits. When a company is owned by its employees, important socioeconomic dynamics arise that benefit workers, the company, the community, and the national economy. Because ESOPs are regulated by a strict legal code that requires ownership to be broadly held across employees, from the mailroom to the boardroom, companies that are ESOP-owned – and particularly those that are majority or wholly ESOP-owned – consistently report better job growth, fewer job reductions during economic downturns, boosted employee savings, and strong protections against foreign acquisitions. Among the data points that underscore the specific value of ESOPs:

- Despite the financial stresses caused by the 2008/09 economic downturn and the resulting great recession, **ESOP-owned companies kept far more jobs than other private companies**. According to a 2012 study by Alex Brill, **employment among employee-owned firms increased more than 60% from 2001-2011, while the private sector had flat or negative growth in the same period**.
- **ESOPs reduce wealth inequality and promote financial security in the American workforce**. A 2016 study by Jared Bernstein shows that by increasing wage-earning employees' share of their business capital, **ESOPs reduced the wealth concentration among the top 10 percent of employees by 2.5%**.

### **National Defense Authorization Act (NDAA) FY22 and FY24 Encourages DoD to Work with 100% ESOPs**

Congress recognized the unique value proposition of 100% ESOPs to national security in that employee ownership provides financial security as well as avoids consolidation of the defense industrial base. Congress encourages DoD to work with businesses wholly-owned through ESOPs and authorized a Pilot Program to Incentivize Contracting with Employee-Owned Businesses in Section 874 of the National Defense Authorization Act (NDAA) for Fiscal Year 2022. With improvements in Section 872 of the FY24 NDAA, Sec. 874/Sec. 872 provides authority for DOD to establish this pilot program to incentivize contracting with businesses wholly-owned through ESOPs by awarding a sole source follow-on contract. Sec. 874/Sec. 872 allows contracting officers (CO) the ability to sole-source the follow-on contracts of similar substance to 100% ESOPs. To qualify, ESOPs must possess the initial contract and completed the project at a “satisfactory” or above rating.

On May 30, 2024, DoD’s office of Defense Pricing and Contracting (DPC) published a proposed rule in the federal register to implement Sec. 874/Sec.872 (2024-D004): [Federal Register :: Defense Federal Acquisition Regulation Supplement: Pilot Program To Incentivize Contracting With Employee-Owned Businesses \(DFARS Case 2024-D004\)](#). The public has 60 days to comment. The current status of DPC’s rule making effort can be found here: <https://www.acq.osd.mil/dpap/dars/opencases/dfarscasenum/dfars.pdf>

### **Government Wide Expansion of Sec 874/872**

Senator Peters, Chairman of the Senate Homeland Security and Government Affairs Committee (HSGAC), and Senator Ted Cruz, introduced S.4066 on March 11, 2024, which included a provision to expand Sec. 874/Sec. 872 government wide. The bill was passed out of committee on May 15, 2024. [This recent HSGAC activity increases the opportunity for leveraging the FY25 NDAA as a legislative vehicle.](#)

The FY25 NDAA voted out of the House Armed Service Committee on May 22, 2024 also signals support for accelerated implementation of Sec. 874/Sec.872 as well as asks the executive branch to consider government wide expansion to increase employee owners.

### **Updating Procurement Practices to Promote 100% ESOP Contractors**

While Sec. 874/Sec.872 is strong first step, ECR members believe Congress can create more 100% ESOPs by incentivizing federal agencies to partner more regularly with ESOP companies with strong histories of completing projects in a timely and cost-effective manner. Procurement practices should leverage the unique benefits of the ESOP model to create a pathway for small businesses to become wholly owned through an ESOP as a pathway towards growth outside of small business standards.

**To learn more about ECR’s activities and legislative priorities, please do not hesitate to contact Matt Scott at [matt.scott@ecrcoalition.com](mailto:matt.scott@ecrcoalition.com), or visit at [ecrcoalition.com](http://ecrcoalition.com)**