



January 23<sup>rd</sup>, 2025

Honorable Members of the Senate Judiciary Committee,

This testimony is offered as an overview to S.11 – a bill to authorize the creation of stewardship trusts in Vermont

When a business is sold, its future is uncertain. Will the new owners maintain the same commitment to local jobs, environmental practices, and community support? Patagonia founder Yvon Chouinard refused to leave this to chance. By establishing a stewardship trust, he ensured his company's values would remain intact. This bill brings this same powerful option to Vermont, allowing our businesses to protect their legacies and honor the commitments they make by enshrining their values in the governing documents of the business beyond the reach of changing boardroom priorities.

**What is the problem we are trying to solve:**

- **Succession Crisis:** Two-thirds of businesses nationwide are owned by baby boomers, and Vermont, the third oldest state, is particularly vulnerable. Many owners struggle to find buyers who share their commitment to the community.
- **Loss of Local Values:** All too often, businesses are sold to large conglomerates or private equity firms prioritizing profit maximization over local jobs, environmental stewardship, and community support. The case of Vermont Teddy Bear serves as a stark reminder of this potential loss.
- **Limitations of Existing Solutions:** Even Employee Stock Ownership Plans (ESOPs), while well-intentioned, face significant challenges. Their complex regulatory structure under ERISA mandates maximizing value for retirees, potentially leading to unwanted acquisitions. Furthermore, the high cost of establishing an ESOP (\$150,000-\$300,000) creates a significant barrier for many businesses.

**The Solution: Stewardship Trusts – A Constitution for Vermont Businesses**

This bill gives Vermont businesses the option to adopt stewardship trusts, a model akin to establishing a “constitution” for a company. Just as a constitution protects the principles of a democracy from the whims of individual leaders, a stewardship trust safeguards a company's mission and values through generations.

- **Preserving Mission and Values:** These trusts allow business owners to codify their commitment to local hiring, ethical supply chains, environmental practices, and community support, ensuring these values endure beyond their ownership.
- **Protecting Against Unwanted Takeovers:** Unlike ESOPs, stewardship trusts are not subject to the same pressures to maximize short-term financial returns, preventing unwanted acquisitions that could harm Vermont communities.
- **Facilitating Employee Ownership:** This legislation also enables the creation of Employee Ownership Trusts (EOTs), a type of stewardship trust specifically designed for employee ownership. EOTs offer a more accessible and affordable alternative to ESOPs (\$30,000-\$150,000), empowering employees and strengthening Vermont's workforce.

**The Patagonia Example:**

The success of stewardship trusts is exemplified by Patagonia. Founder Yvon Chouinard used this structure to ensure his company's unwavering commitment to environmental sustainability would continue regardless of future ownership. This model allows Vermont businesses to similarly safeguard their core values.

### **The Vermont Advantage:**

Currently, Vermont businesses must rely on out-of-state trustees for these trusts, creating unnecessary complexity. This bill empowers Vermont institutions, such as the Vermont Community Foundation, to serve as trustees, streamlining the process and keeping this expertise within our state.

### **Economic and Community Benefits:**

- **Preservation of Jobs:** By facilitating business succession within Vermont, this bill helps retain local jobs and strengthens our economy.
- **Protection of Environmental Stewardship:** It ensures that businesses committed to sustainable practices can continue their vital work.
- **Strengthening Communities:** By preserving local businesses and their community support programs, we protect the social fabric of Vermont.

This legislation presents a unique opportunity to protect Vermont's businesses, communities, and values. By embracing stewardship trusts, we can empower business owners to create a lasting legacy while ensuring a vibrant and prosperous future for our state.

As our legislative counsel Erik Fitzpatrick will offer, this is based on how Oregon has allowed for Stewardship trusts. Important to offer is that this bill is inspired by the very diligent work of one of the brightest recent graduates from the University of Vermont Grossman School of Business Sustainable Innovation Masters in Business Administration (SIMBA) program, Noragh Devlin. She would be an excellent witness to hear from if the committee has time to consider further testimony.

Sincerely,



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