



THE L³C:

SOCIAL ENTERPRISE'S POWERFUL, NEW CAPITAL FORMATION TOOL

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The 1-2 Punch

- Mission-related investing
- Program-related investing



The Foundation's Choice

- Make grants of 5% of "non-charitable-use" assets to charitable causes annually
- or
- Make "program-related investments" of 5% of "non-charitable-use" assets annually



PRIs

- Venture capital and other high-risk investments that would otherwise subject foundation and its manager to 10% jeopardizing investment excise tax.
- Primary purpose is charitable - - religious, scientific, literary or educational, fostering amateur sports competition, or preventing cruelty to children or animals
- Income production or property appreciation not a significant purpose
- Purpose is not to attempt to influence legislation; or to participate in, oppose or intervene in a political campaign of candidate for public office



PRIs come in many flavors

- Interest-free or below-market-rate loans
- Loan participations
- Loan guarantees
- Deposits in community development banks
- Equity investments
- Leases



PRIs in Action

- Low-interest loans to needy students
- Equity investments in low-income housing projects
- Low-interest loans to disadvantaged business owners
- Direct investments in businesses which create jobs
- Investments in land conservation or brownfields mitigation



The Problem with PRIs

- Tough to design
- Tough to implement
- Tough to monitor



PRIs have been seen as complex and expensive

- No process to guarantee that an investment complies with PRI tax regulations
- No standards to ensure that an entity is a proper recipient of PRIs
- Opinions of counsel and IRS private letter rulings expensive and time-consuming



Inherent Conflict of Interest

- Officers and Directors of for-profits must maximize shareholder value
- v.
- PRI recipients must not produce income or property appreciation as "significant purpose"



A Low-Profit Limited Liability Company (L³C) is an LLC

- Non-corporate form of doing business that limits owners' liability
- Affords them flow-through tax treatment, and
- Offers operating flexibility through participation in management



But a special kind of LLC

- One or more for-profit "members" and one or more non-profit "members"
- Charitable or educational purposes
- Would not have been formed except to accomplish those purposes
- No significant purpose to produce income or property appreciation
- But *may* produce significant income or property appreciation
- No political or legislative purpose



Benefits to Foundations

- Avoids legal opinions and private letter rulings
- Attracts outside investors
- Drives mission

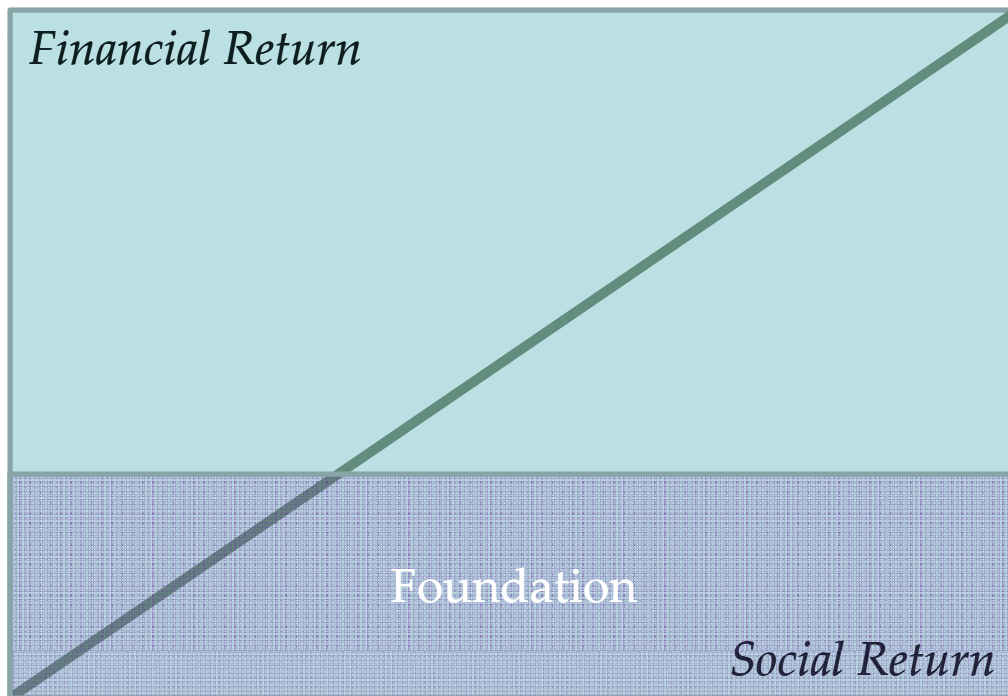


The L³C's Promise

- Financial self-sufficiency
- Continuing foundation input
- Leveraging of angel and venture capital, market-rate bank loans
- Capital flow to "double bottom-line" venture
- A "win-win" for both for-profits and non-profits



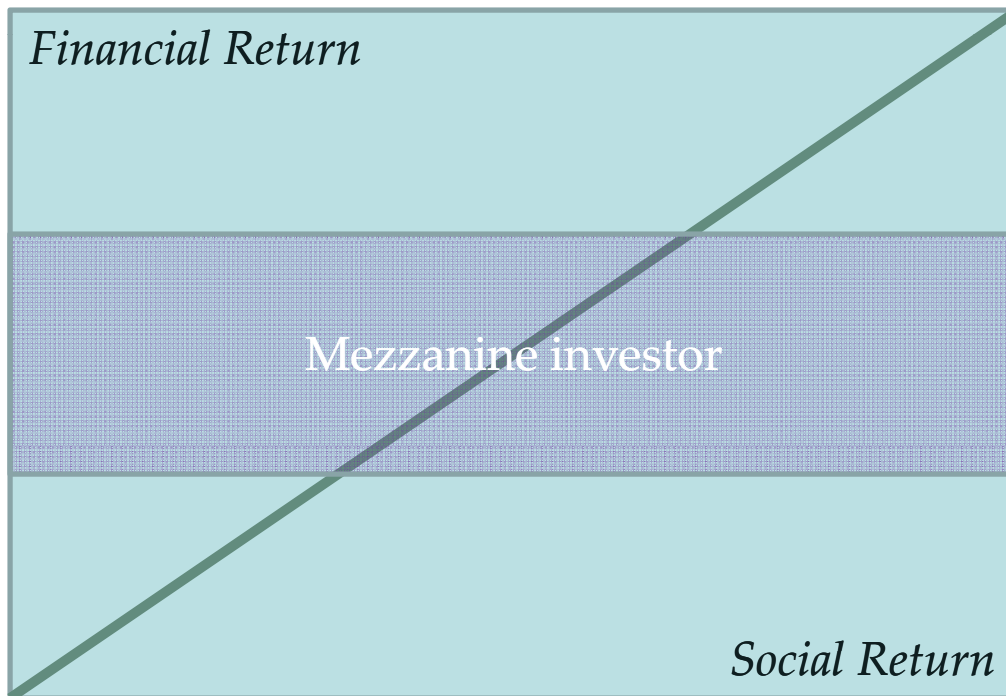
Capital Structure Illustration #1



Foundation incurs high financial risk, earns low (1%) financial return, but high social return



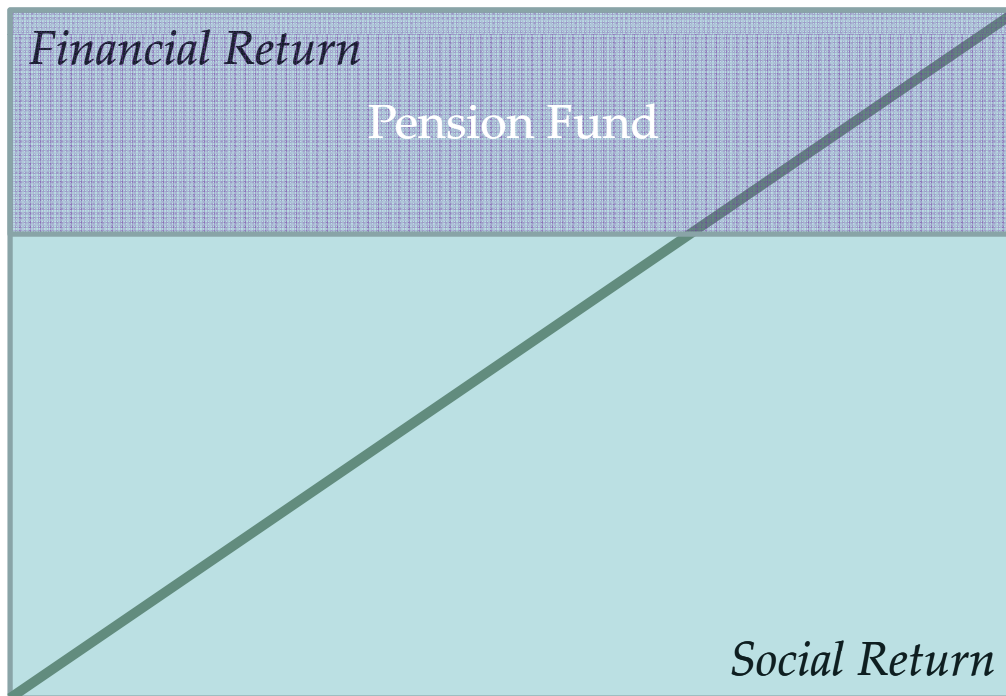
Capital Structure Illustration #1



Socially conscious investor incurs lower financial risk, earns higher (3%) financial return.



Capital Structure Illustration #1



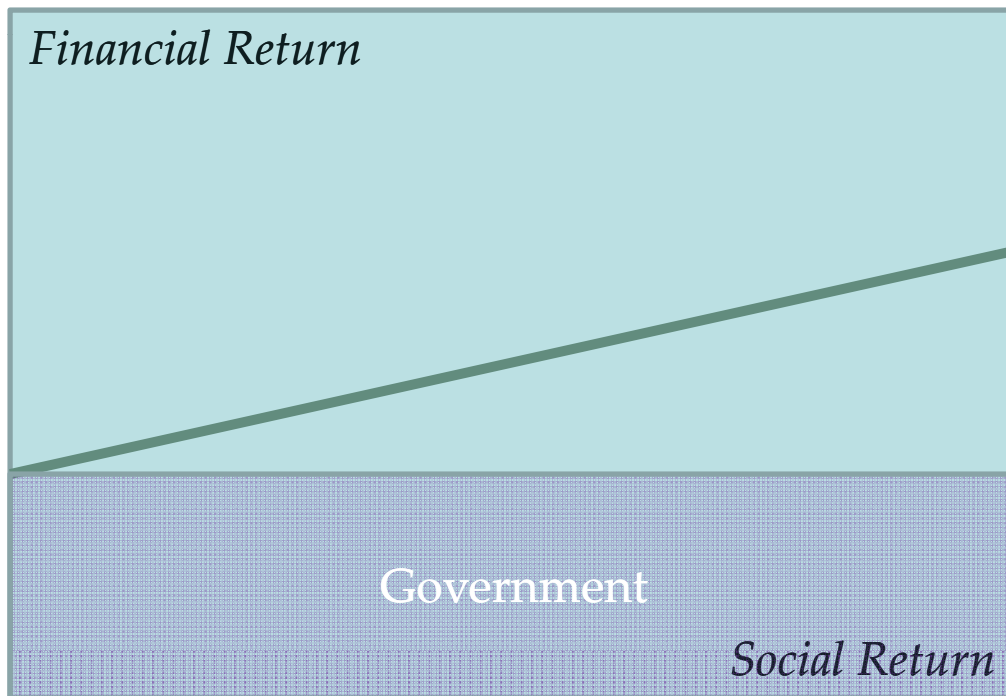
Pension fund incurs market-rate risk, earns market-rate (6%) financial return.



Blended rate of return: 4% - - which L³C can generate, but not without the catalyst of the foundation's PRI.



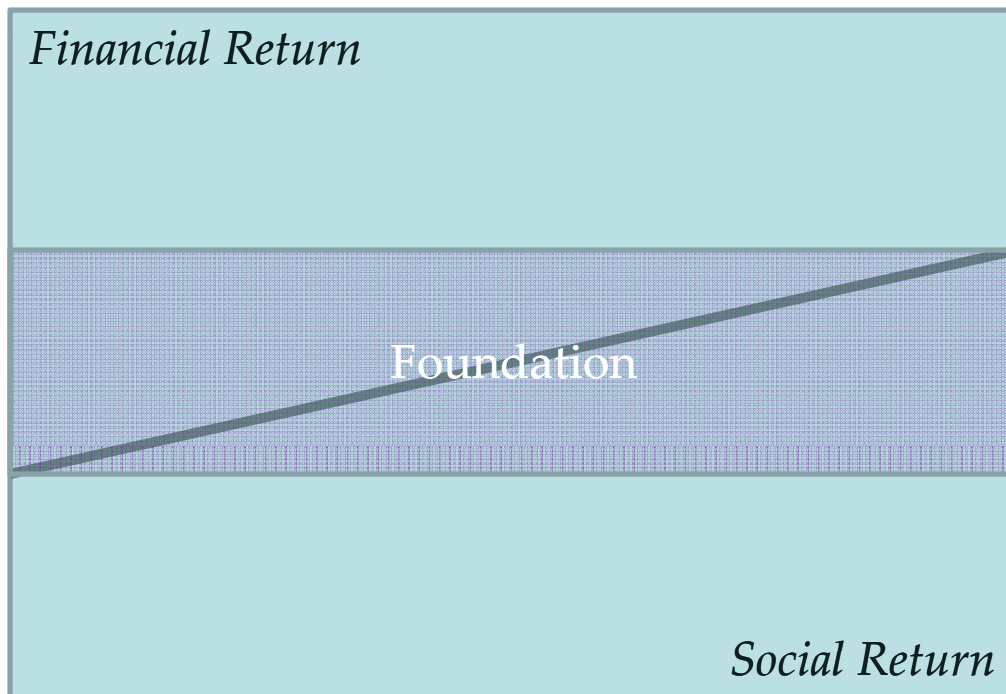
Capital Structure Illustration #2



Development agency makes a grant, earning no financial return, but high social return.



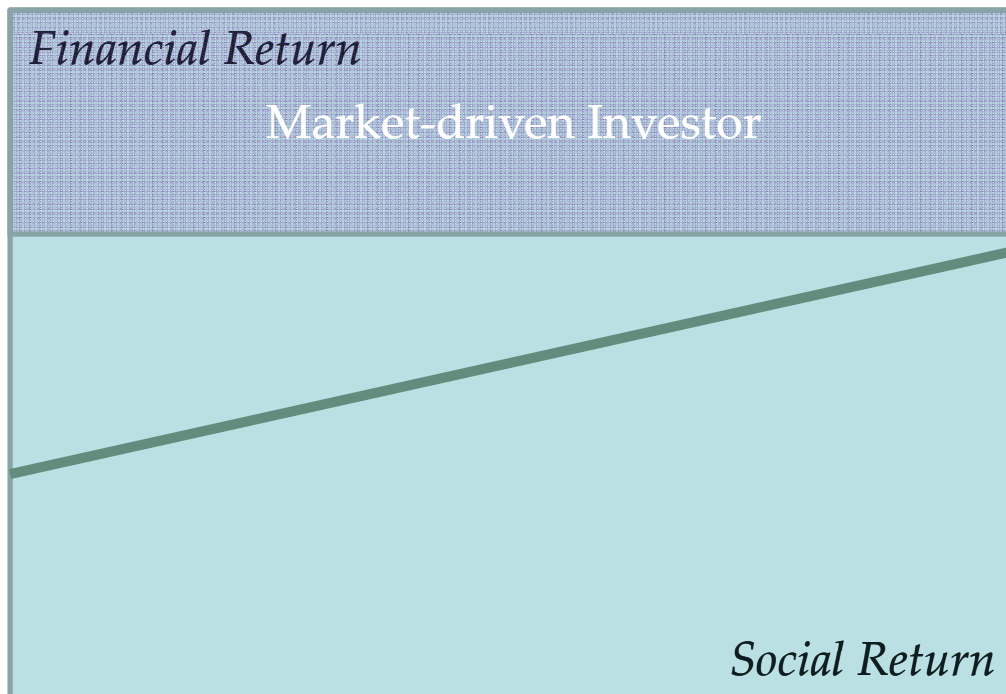
Capital Structure Illustration #2



Foundation earns low (2%) financial return, but high social return.



Capital Structure Illustration #2



Outside investor incurs market-rate risk, earns market rate (7%) return.



Blended rate of return: again, 4% - - which the L³C can generate, but not without the catalyst of the foundation's PRI.



Who's A Candidate?

- Socially beneficial mission
- Consistent cash flow
- Entrepreneurial



Federal Program-Related Investment Promotion Act

"... low-profit limited liability companies shall be entitled to a rebuttable presumption that below market rate investments by private foundations in such entities are program-related investments."



L³C Legislation

2008

Vermont – April 30, 2008

2009

Michigan – January 15, 2009

Georgia

Montana

North Carolina

Oregon

ILLINOIS