

# The L<sup>3</sup>C & Economic Development

Robert Lang

**The L<sup>3</sup>C is the perfect engine for low cost, highly effective, socially beneficial directed economic development.**

I call the L<sup>3</sup>C “the for profit with the nonprofit soul.” The best economic development increases wealth and prosperity without displacing or leaving behind those who need it most. It is this nature of the L<sup>3</sup>C that makes it superior to a regular for profit for economic development.

## The L<sup>3</sup>C & Economic Development by Robert Lang

The L<sup>3</sup>C\* is not a nonprofit. It is a for profit venture that under its state charter must have a primary goal of performing a socially beneficial purpose not earning money. The legislation was specifically written to dovetail with the federal IRS regulations relevant to Program Related Investments (PRIs) by foundations. This makes it a perfect vessel for PRI investment without the need for IRS private letter rulings. It also facilitates tranching investing with the PRI usually taking first risk position thereby taking much of the risk out of the venture for other investors in lower tranches. The rest of the investment levels or tranches become more attractive to commercial investment by improving the credit rating and thereby lowering the cost of capital. It is particularly favorable to equity investment. Because the foundations take the highest risk at little or no return, it essentially turns the venture capital model on its head and gives many social enterprises a low enough cost of capital that they are able to be self sustainable.

This makes the L<sup>3</sup>C the perfect engine for low cost, highly effective, socially beneficial directed economic development.

The L<sup>3</sup>C can help without government investment. Since profit is not its primary goal, a structure can be created to maximize the social benefit and use investment heretofore not available to the public sector.

For example, an L<sup>3</sup>C could be formed to build a bridge. The local L<sup>3</sup>C will contract with a specific government entity to build the bridge. It will lease with maintenance or contract for a lease/purchase with maintenance of the bridge to that entity.

An L<sup>3</sup>C might buy a run down industrial building in a depressed area, rehab it, make it green, reequip it and lease it out at low rates to a business willing to locate in the area and hire from the community.

An L<sup>3</sup>C might be organized to build and run a charter school. In that case, the mezzanine financing of the school would be sold to parents who would, by virtue of their membership in the L<sup>3</sup>C, have a vote in how the school is run.

We are working with Volunteers of America to use the L<sup>3</sup>C to build its new chain of PACE centers (The Program of All-inclusive Care for the Elderly) which might be called nursing homes without walls. The L<sup>3</sup>C's tranced structure will enhance the attractiveness of these projects to financial institutions and private investors.

It is also the perfect vehicle to incubate new or struggling industries and provide employment to millions. It could save vital but dying industries such as newspapers.

The L<sup>3</sup>C is the future of BioTech. As Chris Larson pointed out in his American Chemical Society blog: The structure of an L<sup>3</sup>C is designed to create a microenvironment conducive to the simultaneous investment of private and not-for-profit capital. Ownership is layered, and risk and reward is unevenly spread over a number of investors....If adopted more widely in the U.S., the L<sup>3</sup>C structure could be a win-win for both sides of the biotech entrepreneurial struggle, as investors/donors would then have the possibility of sustainability and return through ownership versus pure charity, and scientists and other start-up founders

could then have access to a fresh new pool of money willing to invest in deals of a scale, and with a time horizon and expected rate of return, that traditional investors of the last several years have forgone.

Another point is that the L<sup>3</sup>C as a for profit vehicle would pay taxes not drain money from the public coffers. As an llc it can either "grow up" and turn into a viable commercial enterprise or remain a quasi non profit but be self sustaining.


The L<sup>3</sup>C is now legal in all 50 states as a result of legislation signed into law in Vermont in April 2008, Michigan in Jan. 2009, the Crow Indian Nation in Jan. 2009, Wyoming in Feb. 2009, Utah in March 2009, the Oglala Sioux in July 2009 and Illinois in August 2009. A Vermont, Wyoming, Utah, Illinois or Michigan L<sup>3</sup>C, like a Delaware corporation, can be used anywhere. The L<sup>3</sup>C is pending in some form in Missouri, Arkansas, Montana, Oregon, Washington State, North Carolina, Maine, Massachusetts, Ohio, Tennessee, California, Colorado, Kentucky, Virginia, North Dakota, Florida, Georgia, Wisconsin and New York.

The L<sup>3</sup>C was built on the llc structure in order to provide the flexibility of membership and organization needed to cover a wide variety of social enterprise situations. It also makes it very easy for legislators to grasp since it does not create a new structure but merely amends the definition section of the llc act in most states.

That leaves 15+ years of legislation and litigation that is behind the llc intact behind the L<sup>3</sup>C.

Probably more importantly than anything else, the L<sup>3</sup>C is a brand which stands for all this and more. Hopefully, as a brand it will make the concepts easy to grasp and thereby frequently used.

We believe that social enterprise is the "next big thing." The middle class American is tired of investment bubbles, convoluted financial schemes, and giant corporate entities that treat employees like inventory



to be revalued and dumped as the “market” dictates. They want to work in kinder, gentler places that have high social values and treat workers as the most important resources. They want to invest their money where they know it will not disappear when another bubble bursts and most of all they want stability in their lives. Social enterprise has the opportunity to fulfill those desires while operating under the efficiency of a for profit structure.

\*low profit limited liability company

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Robert Lang, CEO of the Mary Elizabeth & Gordon B. Mannweiler Foundation (with many years of corporate and nonprofit management experience) created the L<sup>3</sup>C and carefully refined it with the assistance of many other individuals and organizations whose assistance we value greatly.

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032010-03

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