



What is the L<sup>3</sup>C? The creator of the L<sup>3</sup>C, Robert Lang, calls it the “for profit with the nonprofit soul.” It operates in the space between the nonprofit and the pure for profit organization to perform a social mission. A type of LLC, the L<sup>3</sup>C (Low-Profit Limited Liability Company), is able to bring together a mix of foundations, trusts, Donor Advised Funds, endowments, pension plans, individuals, corporations, nonprofits & governmental entities and others in order to achieve social objectives while operating according to for-profit metrics. Just like any LLC, an L<sup>3</sup>C has the liability protection of a corporation and the flexibility of a partnership.

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

by Robert Lang



The L<sup>3</sup>C (Low-profit Limited Liability Company) 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. It also facilitates layered investing with the PRI usually taking first loss position thereby taking much of the risk out of the venture for other investors in more secure levels. The rest of the investment levels 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 L<sup>3</sup>Cs 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 and job creation.

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 attract investment dollars heretofore not available to the public sector.

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 create new jobs from within the community.

It is the ideal vehicle to incubate new technology or enhanced technology for struggling industries and provide significant employment. It could save vital but dying industries such as newspapers which need investment for new technology.

An L<sup>3</sup>C could be formed to rehab an old theatre building complete with complementary businesses such as a restaurant and a parking garage and use some of the revenues to subsidize theatre productions.

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.

The Montana Food Bank Network is using an L<sup>3</sup>C to build and operate a new food company, Endless Sky L<sup>3</sup>C. Endless Sky L<sup>3</sup>C will produce and sell a retail product line, while using the revenues to cover the costs of processing food for the Food Bank Network. It will buy food from local farmers who do not have a current local outlet for higher value crops. So in addition to reducing the cost of feeding the hungry and providing more nutritious food to the hungry, it will create jobs and provide improved opportunities for farmers.

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 January 2009, the Crow Indian Nation in January 2009, Wyoming in February 2009, Utah in March 2009, the Oglala Sioux in July 2009, Illinois in August 2009, Maine in April 2010, Louisiana in June 2010, North Carolina in August 2010 and Rhode Island in June 2011. A

Vermont, Wyoming, Utah, Illinois, North Carolina, Maine, Rhode Island, Louisiana, or Michigan L<sup>3</sup>C, like a Delaware corporation, can be used anywhere. The L<sup>3</sup>C bill is now active or about to become active in many other state legislatures.

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 anyone familiar with business structures 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.

Everyone also knows that government at all levels is effectively broke. It needs to shrink not spend more money it does not have. The L<sup>3</sup>C has the opportunity to fulfill those desires while operating under the efficiency of a for profit structure. A significant benefit of the creation of jobs through a partnership of foundation investment and private dollars is that all the jobs created will lead to increased tax revenues at no expense to the government!

For More Information Regarding the L<sup>3</sup>C Visit Our Website:  
[americansforcommunitydevelopment.org](http://americansforcommunitydevelopment.org)

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