



## Legislation Text

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**File #:** Res 1672-2013, **Version:** \*

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### Res. No. 1672

Resolution calling on the New York State legislature to pass A.6116/S.3011, which would amend the New York State limited liability company law to create a new business entity known as a low-profit, limited liability company.

By Council Members Levin, Brewer, James, Koo, Mendez and Rose

Whereas, A low-profit limited liability company (“L3C”) is an entity that blends the socially responsible activity of a nonprofit organization with the revenue generating potential of a for-profit company; and

Whereas, Unlike a limited liability company (“LLC”), the accumulation of income is a lower priority than fulfilling a charitable mission; and

Whereas, L3Cs are an attractive investment option for philanthropic foundations, which are required by law to donate 5 percent of their assets to charitable organizations in order to retain their tax-exempt status; and

Whereas, Prior to the existence of L3Cs, charitable foundations essentially had two options for meeting this mandate: (i) either distribute grants; or (ii) make program-related investments (“PRIs”), which are high-risk, low-return investments that must have a charitable goal relating to the foundation’s mission; and

Whereas, While PRIs, unlike grants, can potentially produce a return on a foundation’s investment, many such organizations are hesitant to pursue them in the event that the Internal Revenue Service (“IRS”) refuses to recognize the validity of a PRI; and

Whereas, The fundamentally charitable nature of L3Cs may mitigate the risk that a foundation’s investment could be determined by the IRS to be anything other than a bona fide PRI, thereby fostering new or increased venture philanthropy in New York State; and

Whereas, If investments in L3Cs are tranching in such a way that the charitable foundations making

PRIs would take on the highest risk, more diverse investors could be attracted to the company who would then face lower risks in their investment; and

Whereas, By offering ownership and management rights to a charitable foundation, L3Cs can also allow those foundations to recover their initial investment and possibly even generate profit; and

Whereas, In 2008, Vermont became the first state to pass legislation recognizing L3Cs. Since then, several other states have passed similar legislation including Illinois, Louisiana, Maine, Michigan, North Carolina, Rhode Island, Utah and Wyoming, as well as the territories of the Crow Indian Nation and the Oglala Sioux Tribe; and

Whereas, If passed, A.6116/S.3011, introduced by Assembly Member Brennan and Senator Espailat, respectively, would allow New York to follow suit, amending the state's limited liability company law to allow for the creation of L3Cs in the state; and

Whereas, Allowing more organizations to acquire L3C designation benefits both the socially responsible organizations that serve the community and the philanthropic foundations looking to support them; now, therefore, be it

Resolved, that the Council of the City of New York calls on the New York State legislature to pass A.6116/S.3011, which would amend the New York State limited liability company law to create a new business entity known as a low-profit, limited liability company.