

OPPORTUNITIES IN SOLAR FINANCE: INVESTMENT CROWDFUNDING



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SOLAR POWERING
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Overview of Presentation



- **Background:** Current challenges to financing solar; why securities law matters; and existing models used to address challenges
- **Investment Crowdfunding:** What is investment crowdfunding and why does it matter?
- **Michigan Invests Locally Exemption (MILE):** Basic requirements, New opportunities, Limits and challenges
- **Next Steps and Future Dreams**



Background: Financing Solar is Important!

... But Complicated



- **Hard Costs** (materials, labor, maintenance, financing)
- **Financial Complications**
 - Difficulty monetizing financial benefits and capturing value of generated power, saved energy costs, and externalities such as environmental benefit
 - Problems of scale and location
- **Legal Complications**
 - Securities law compliance
 - Capturing tax credits (passive income limits)
 - Utility regulation and need for leadership by utilities
 - Business and tax law; methods of assessment
- **Result:** High “soft costs” to address financial and legal complexity, especially for small scale and individual projects

Background: *How do securities laws affect solar financing?*



- Most loans and investments are a “security”
- A “security” must be registered with state and federal agencies unless it is exempt
- Traditionally, there are significant limits or prohibitions on:
 - Public advertisement for investment
 - Asking for or accepting investment from non-accredited investors (regular people)
- This results in:
 - Small scale businesses limited to seeking investment from banks/angels/rich uncles (accredited investors)
 - Regular people sending investment straight into retirement accounts invested in wall street

Background: *Existing and Developing Tools to Overcome Solar Financing Challenges*



- There are a number of tools for addressing solar financing barriers
 - Utility company and regulatory changes in rates: RECs, net metering, power purchase agreements
 - Reducing costs of traditional financing: PACE, Michigan Saves
 - Creative and often complex ownership and financing structures to comply with securities, utility, and tax regulation: Minnesota flip, special purpose entities, cooperative ownership, leaseback
- Securities law is significant barrier for financing community solar or seeking funding from neighbors and community members (#1 “legal issue” identified in the Michigan Community Solar Guidebook)
 - Enter investment crowdfunding!



New Kid on the Block: Investment Crowdfunding



What is investment crowdfunding?

- Investment crowdfunding means businesses and non-profits can publicly advertise investment opportunities to regular people (aka non-accredited investors)
- “Rewards” crowdfunding versus “investment” crowdfunding:
 - “Like Kickstarter or Indiegogo, but you might get your money back.”

New Kid on the Block: Investment Crowdfunding

Why is it a big deal?



- Paradigm shift for Entities looking for investment
 - **Much Broader Pool of Potential Investors.** Within certain limits, businesses can publicly advertise for investment from all community members, not only rich uncles, widening the pool
 - **More Ways to Sell Investment.** Businesses can look for investors who might be concerned about other types of returns beyond financial returns, including community and environmental
- Paradigm shift for all of us “non-accredited” investors
 - **Opportunities to invest outside the stock market.** We have more choices as to where to put our investment dollars
 - **Investors AND customers/neighbors.** New relationship to businesses in our community as investors and not just customers realize more direct benefits from investments in our community



New Kid on the Block: Investment Crowdfunding

Federal and State Laws



- **Federal JOBS Act (2012)**
 - Some changes for public advertising to accredited investors
 - ✦ Solar Mosaic, SunFunder, CrowdSun
 - ... Still waiting for regulations enabling public advertisement to non-accredited investors
 - ✦ Limits on web portals and registration
 - ✦ Will likely still be cost prohibitive for smaller businesses and investments
- **To fill the gap, states have been adopting “intrastate” investment crowdfunding provisions**
 - Michigan was one of the first in December 2013
 - 12 states, District of Columbia, have adopted laws; others have regulations, and counting . . .



New Kid on the Block: Investment Crowdfunding

It's already starting (and startling)...



- U.S. solar companies already working with banks and SEC to securitize >\$1billion in distributed, crowd-funded solar
- Michigan Municipal League's CrowdfundingMI web portal: <http://www.crowdfundingmi.com/>
- New LocalStake platform for indexing Michigan clean energy projects: <https://localstake.com/partners/michigan-solar-funding-platform>
- www.MichiganSaves.org
- www.sparkfund.co (not dot com)
- Michael Shuman's Loca-Topia: <http://michaelhshuman.com/?p=42>



Michigan Invests Locally Exemption (MILE)

Basic Requirements



- **Federal Law Compliance:** Securities must comply with “intrastate” exemption to federal securities law
 - Investors (including offerees and purchasers) are MI residents
 - ✦ Driver’s license, voter registration, property tax affidavit showing principal residence
 - Michigan business
 - ✦ Incorporated and principal office in Michigan
 - ✦ 80% of gross revenues, 80% of assets, 80% of net proceeds to be spent in connection with operation fo business or real property in MI
 - NO offer or advertisement to a non-Michigan resident (and no issue that could be “integrated” with offer)
 - Limitations on resale





Michigan Solar Funding Platform

Connecting you to Michigan renewable energy projects

About Michigan Solar Funding Platform

The Michigan Solar Funding Platform is a program sponsored by the Great Lakes Renewable Energy Association (GLREA), a statewide non-profit established in 1991 to promote renewable energy in Michigan. GLREA has partnered with Localstake Marketplace LLC to provide this crowdfunding platform to connect Michigan investors to renewable energy projects in our state and local communities. GLREA supports renewable energy projects and believes they are good investments that benefit investors, the environment, and the Michigan economy. However, GLREA does not recommend or endorse any specific project listed on this web site.

How to Get Involved

If your business should be associated with this partnership, sign up as a featured business of this partner below. To review and invest in these businesses and others on Localstake, sign up as an investor on Localstake.

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Michigan Invests Locally Exemption (MILE)

Basic Requirements



- **State Law Filing**
 - Minimal filing requirements (\$100 fee, offering and investment agreement documents, financial statements and disclosures)
- **State Law Requirements**
 - Can publicly advertise only to Michigan residents
 - Total raise up to \$1 million, or \$2 million w/audited financials
 - Investment of \$10k per non-accredited investor per business, per year; no limits on accredited in amount
 - Flexibility in structure. Can be debt or equity; non recourse or other. Can subordinate to other debt.
 - Money must be held in escrow until the target amount is raised.
- **Web Portals**
 - Web portals must be registered with the state
 - Limits on social media advertisement

Investment Crowdfunding + Solar

Addressing Solar Financing Barriers



- **Creates new tools to address financial and legal barriers**
 - Creates simple and affordable way to comply with securities law and access a huge new potential investor pool
 - Provides flexibility in how financing is structured that can be combined with other financing sources (could be low-interest, non recourse debt that is subordinate to other debt).
 - Mechanism for people to support off-site solar and to aggregate projects and investments
 - Help monetize external community benefits through investors willing to finance low-interest loans to support solar in their community
- **Creates new way to market and educate about solar; use financial investment to leverage community investment**

Investment Crowdfunding + Solar

Sweet Spots for Opportunity



- Affinity crowd-financing for non profits and small businesses
- Creates security-law friendly method for community solar
- Aggregated solar investor platforms
- Combine with other existing financing mechanisms
 - PACE district and Michigan Saves projects ready to accept crowd-financing



Investment Crowdfunding + Solar *Challenges/Limits*



- **Remaining complex legal and financial limits**
 - Financial challenges: Challenge to make projects cash flow and attract investment despite long-term returns. Need for tax equity investors or improved monetization of benefits to make projects.
 - Legal challenges: complicated tax and ownership structure issues.
- **Newness of Investment Crowdfunding**
 - Investors
 - ✦ Lack of investor awareness
 - ✦ Need for improved investment tools (self-directed IRAs, etc)
 - ✦ Lack of investor “due diligence” tools
 - ✦ Need for investor pools
 - Businesses/Community
 - ✦ Need to develop models and templates to reduce soft costs
 - ✦ Likely need to aggregate projects to make them financially feasible
 - Support Services
 - ✦ Need for banks that can hold money in escrow; need for platforms that are Michigan compliant
 - ✦ Need for attorneys, accountants, and other professionals that understand the law



Investment Crowdfunding + Solar

What's Next?



- Steps to address remaining barriers and integrate with other financing tools
 - Create partnerships and info-sharing communications
 - Identify and develop “open source” legal and financial models for best models for Michigan
 - Select and prepare prototype projects
 - Spur state or national platforms to use MILE to offer opportunities to aggregate and simplify investments
 - Help provide information to banks, professionals, community leaders
- Future Dreams
 - Creation of secondary market – local “stock exchange” legislation
 - Aggregation of companies/funds into Michigan Energy Mutual Fund

Investment Crowdfunding + Solar

What's Next?



- **Questions for discussion**

- What are potential “best fits” for investment crowdfunding and solar?
 - ✦ “Affinity” groups?
 - ✦ Leveraging other financing models and sources?
- What existing projects do we know about that might be able to aggregate and combine expense of developing legal and financial models for being the prototype?