

# Co-ops with share capital



- Issue shares to the membership to raise capital, and distribute dividends from surpluses to their members as return on their capital investment.
- Shares issued to a member can be common shares with the right to vote attached to them.
- The co-op may also issue preferred shares that entitle the holder to a fixed return on those shares.
- The primary purpose of share capital co-ops is to provide goods and services to the membership, but they also generate surpluses to pay dividends to the membership.

# Co-ops without share capital



- Do not issue shares, but rather debt instruments like **bonds or debentures**, which have a fixed yield (return) attached to them. This means, **no actual ownership**.
- For example, members could purchase bonds issued by the coop in denominations of \$1,000 with a promise to pay a 5% return per annum during the term of the bond, for example a fixed 5-year period. After the five years, the bonds could either be renewed or paid back in full.
- Co-ops without share capital are not required to generate any surpluses above the interest payments to the bond holders. Their primary purpose is to provide goods and services to the membership without producing financial gains to the members

# Not-for-profit co-operatives



- Sometimes, co-ops choose to incorporate as not for-profit organizations to attract goodwill sponsors for grants to help with start-up costs or ongoing operations. This means using the non-share structure.
- OSEA advices: “We are seeing this as a common option for contemporary RE co-ops. Before making a decision, conduct your economic analysis and consult with an accountant and lawyer, rather than letting access to grant monies determine your corporate structure.
- You need to plan for a 20-year horizon, and your incorporation structure needs to accommodate the long term.”

# Raising Capital (Equity) from Members

## Share Capital Co-ops

- Membership Shares – Voting Rights
- Preference Shares – No Voting Rights/  
Investment Shares
- Pay dividends on share holding – non binding
- Considered equity of the co-op

## Non-Share Capital Co-ops

- Debentures or Bonds
- Member Loan
- Structure often used to operate on a not-for-profit basis.  
Obligation to pay interest
- Loans/bonds despite binding repayment schedule are quasi-equity

# Criteria: for profit or not for profit

## **FOR PROFIT**

REGULATION DRIVEN

ENSURE THE FINANCIAL VIABILITY OF THE COOPERATIVE

DISBURSE DIVIDENDS ON SHARES

OPPORTUNITIES FOR COMMUNITY ENGAGEMENT -MAXIMIZE

SURPLUS DISTRIBUTION - COMMUNITY SHAREHOLDERS

TAX BENEFIT TO COMMUNITY SHAREHOLDERS

- LIMITED ACCESS TO PUBLIC FUNDING PROGRAMS
- COMMUNITY PERCEPTION OF MISSION DRIVEN-MIXED
- OPERATIONAL FLEXIBILITY- REASONABLE OPTIONS

## **NOT FOR PROFIT**

REGULATION DRIVEN

ENSURE THE FINANCIAL VIABILITY OF THE COOPERATIVE

DISBURSE INTEREST ON LOANS

OPPORTUNITIES FOR COMMUNITY ENGAGEMENT-MODERATE

SURPLUS DISTRIBUTION -COLLECTIVE COMMUNITY

TAX BENEFIT TAX BENEFIT TO CO-OPERATIVE

- OPTIMAL ACCESS TO PUBLIC FUNDING PROGRAMS
- COMMUNITY PERCEPTION OF MISSION DRIVEN-CLEAR
- OPERATIONAL FLEXIBILITY- SPECIFIC REQUIREMENTS

# Summary: Shares vs. Non-Share

## • **Share Capital:**

- Co-ops fund themselves using share capital
- Can sell membership shares (voting rights) or preference/ investment shares (non-voting) to members
- Additional loan, bond, debenture structures are possible
- Generally operate on a for profit basis, use shares to build equity and provide financial return to their members

## • **Non-Share Capital:**

- Use of loan capital to fund operation
- Charge a membership fee (voting rights) and can also require member loans to the coop
- Can use this structure to operate on a not-for-profit basis, loans and other instruments (bonds, etc) to build 'equity' and provide return.

# A discussion from Community Power Collaborative Forum OSEA



- 1) FSCO & the Offering Statement – FSCO appears to be still a bit uncomfortable with the NFP model for renewable energy. This could delay (further) the receipting of our offering statements.
- 2) Lenders want to see equity, as in a share co-op, and not “debt”, as a non-share co-op depends on (member loans, etc). How much does this matter to the lenders? Can a co-op get reliable and affordable financing at 100% debt?
- 3) Member/investor perception of “not-for-profit” may tend toward thinking of it as a “charity”, rather than a business to invest in.
- 4) Operating capital – how do we raise the money to develop a project (even the 10% CEPP doesn't fund), maintain an office, print flyers, pay auditors and consultants, etc.
- 5) Returns. Are you sure that the co-op will be able to meet the obligations on its bonds?
- 6) Interest rates. If the co-op issues bonds, will investors be content when/if the rate in other investments changes? (This applies to shares as well.)
- 7) RRSP eligibility – Still waiting to hear if bonds are eligible. What can Options or TREC tell us?

# Discussion continued



- 8) The public (potential members) may perceive for-profits as greedy, exclusive, or opportunistic - while "investors" out for profit may be seeking higher returns than community co-ops can offer.
- 9) For-profits cannot avail of many grants (Trillium, municipal grants), and are less likely to be offered meeting space etc free of charge.
- 10) Member values may or may not be served by "profit".
- 11) Many who are attracted to this sector (including directors) are not profit-oriented "types" (and of course this can be a danger)
- 12) Potential allies (NGOs, municipalities, local clubs) may favour NFP models.
- 13) Good models of NFPs already exist (Options for GE, SolarShare)
- 14) For-profits are not precluded from "giving back" generously - unless their members are opposed.
- 15) The profit motive has brought humanity (and the earth) to a dangerous point - do we really want to perpetuate it?

# Example; Options for Green NFP Model



- The biggest reason for going the the non-profit route is that it fits with their philosophical model. Provide a reasonable return for investor/members but also feel that some of the surplus should be "paid forward" into a fund that will use this capital for further social good - including but not necessarily exclusively for renewable energy.

# Options for Green continued



- The FSCO piece is definitely a problem. It took almost ten months to get their Offering Statement receipted. It was an education process for them and for us. \*\* Harry states that FSCO is **not** uncomfortable with the NFP model. It wants to see a clear financing structure. \*\*  
As for equity stake, the RRSP eligible Community Bonds they will issue to their members are treated as subordinate debt - so to a debt financier it's essentially the same as if it were equity. They don't foresee a problem with this.

# For profit example: Ottawa RE Coop



- The main philosophical reason Ottawa RE Coop incorporated as a for-profit coop was that they wanted to be part of a **community economic development process** where local investment goes into local enterprises and projects. Like a worker coop, they felt it provided a good model for a more democratic economy.
- With the current FIT rates based on a 7% return it is not likely there will be much of a surplus left after payment of dividends on shares, bonds, debentures, etc. so the difference between non-profits and for-profits is moot. I do expect OREC members to plough back any surpluses we might make in the future to the community.

# 'Not for profit' SolarShare Bonds



- <http://www.solarbonds.ca/>
- SOLARSHARE COMMUNITY SOLAR BONDS
- Minimum Offering: \$700,000
- Maximum Offering: \$10,000,000
- Minimum Individual Purchase: \$1,000
- Maximum Individual Purchase: Current limit of \$1,000\*
- Security Repayment of the Solar Bonds is secured by a mortgage registered on all of the project leases held by SolarShare, second to the Senior Debt Financing, if any, held by a trustee appointed by TREC pursuant to a Trust Agreement for the benefit of all Solar Bondholders.
- Interest Rate: 5% interest on these Solar Bonds is paid semi annually to members through electronic fund transfers, or annually to members who wish to receive a cheque by mail.
- Term Repayable after 5 years. SolarShare may, upon 60 days' notice, repay all or a portion of the principal outstanding, and shall communicate such offer to all members. It shall then repay those who express a desire to be repaid pro rata.
- Rank The Solar Bonds will be a debt obligation of the Co-op and will rank equally with each other and with all other similar indebtedness of SolarShare, but will be subordinate to the Senior Debt Financing lender.

# SolarShare Bonds continued



- SolarShare privately raised bridge financing totaling over \$3.7 million in order to construct its initial round of solar projects. Today, 18 projects (17 smaller ground mounted rural installations and one large industrial rooftop system) are completed, installed and generating electricity. **Since these projects are already completed, SolarShare Community Solar Bonds are at lower risk and offer a steady income for 20 years.**

# 'For profit' WindShare Co-op



- Wind turbine at Exhibition Place
- More than 400 Ontarians are investors and shared owners in the WindShare turbine.
- <http://windshare.wordpress.com/>
- WindShare's mission is to demonstrate **leadership and action** in the community wind power sector, and to develop community power projects that are sustainable economically, environmentally, and socially. WindShare provides an alternative to large, centralized energy generation with the development of local, profitable and inclusive community power projects.

# Leominster Community Solar



- <http://www.shareenergy.coop/leominstersolar/>
- 49kW solar array on the Bridge Street Sports Centre in Leominster. 94 people have joined and will make a healthy return on their investment. This is a wholly community owned renewable energy . The £150,725 required was raised by 22nd December 2011 – in fact the share offer was oversubscribed by over 40%.
- Returns to members will be made on an annual basis and are expected to average 6% over the life of the project, at which point the members' original investment will be returned to them.
- <http://www.shareenergy.coop/shareenergy/co-operatives/>

# Making that Decision: For Profit or NFP (share or non-share).



- Understanding our philosophical motivation.
- .What is the governance structure and culture we want for the co-op? In the case of the library, the surplus funds could go there or support the operating costs of other non-profits. How are we going to use surplus funds?
- Understanding what **financing** will be needed can help determine whether we incorporate with share or without share capital.

# Case for not for profit (without share capital)



- Can be eligible for government contributions or granting programs as source of revenue  
These contributions could be important as part of ongoing co-op revenue, depending on structure
- Not required to generate any surpluses (financial gains) above the interest payments to the bond holders.
- Co-ops do not pay income tax
- RRSP eligible Community Bonds they will issue to their members are treated as subordinate debt - so to a debt financier it's essentially the same as if it were equity.

# Case for 'for profit'.



- Shares will give us more flexibility.
- more replicable as a model and it does draw in people from a wider range of backgrounds and political beliefs, and get them involved in renewables - which is the bottom line!
- We have no portfolio –not a single installation so it is tougher to sell bonds and to make returns on investments- an obligation.
- We can still do bonds and debentures.
- Returns are pretty risky and variable. Therefore it does not always work to have debentures, bonds etc - you need equity - members participate in the risk and their returns go up and down....and in return they get to own the assets.

# Bottom line- for real



- We have no portfolio –not a single installation so it is tougher to sell bonds and to make returns on investments- an obligation.
- Does the library have \$\$ of its own? How does it plan to work with us?
  - Benevolent mandate = certain type of investors (limiting).
  - Without bridge model (or third-party guarantee) it may be difficult to raise debt when there is still construction risk.

# According to TREC:



- TREC believes that the non-profit (bond debt) model is the best model to choose if the co-op desires to provide fixed yields to member investors and then set aside a surplus for other activities like education and environmental projects. Under a non-profit model, the return on invest is fixed (a certain percentage per annum over a fixed term) and typically, member investors benefit from a lower risk investments; since the return is fixed, it is not as dependent on the production and performance of the technology.
- There are a few cons as well. When it is a non-profit, bond model with a fixed return, sometimes the membership will be less likely to be engaged. You will get a portion of people who will just invest in the co-op like it's a GIC or another low-risk investment and reap the returns.
- Non-profit bond model is an excellent choice if you can get up-front financing from bridge lenders or private lenders to build the project, and use the community/member bonds to pay down that debt.

# According to TREC continued



For profit models typically return all surplus/profit back to investors. While there is some room to budget on having a portion of the surplus be used for environmental benefits and education, **it must be approved by the membership each time.**

For member investment returns on a for-profit model is based on the project's performance and production. While you can project an approximate return on investment for member investors, the return is rarely fixed a certain percentage and can vary from year to year. Because the return is dependent on project performance, the **membership is likely to be more involved.**

# According to TREC continued.....



- In the case of WindShare, a for-profit share model, since the turbine has not generated a profit the membership has only ever gotten one payout. With SolarShare, a non-profit bond model, our members have already gotten two.
- Keep in mind that under both models, if the project does not succeed and is not built, there is no return. In either model, project construction and pre-project construction is a very high risk point of time for the co-op.
- It is ideal that you pick a model at the time of incorporation if you are likely to go non-profit. **It is easier to go from non-profit status to for profit status rather than the other way around.**

# According to Harry French of OSEA



- I always recommend with share capital. It provides the greatest flexibility to engage the community. Perhaps the only disadvantage is applying for government grants that seem to be only available to not for profits – which by the way is also not true. One of our for profit client Beach community power received a Build Green Toronto Grant
- Some are saying you have to be a not for profit as Infrastructure Ontario MIGHT provide low interest loans. If they do for not for profit - for profits will quickly follow as they both operate under the same co-operative principles.

# According to Harry continued



- Personally I do not understand why you have to decide so early. In our other projects once we received the grant we then hired people to come in and talk to the Directors and to answer their specific questions. They also did a vision statement so that they have sufficient information to make a decision once they understood function (vision) then form (with or without share capital) followed.
- Advice: articulate the 5 – 8 strategic results that they want to achieve as a group and then fit the governance model to this – bit I still say wait until you get some \$\$\$ to investigate it.
- Are you planning to submit a FIT application in the next window? It is the only reason that I can see why you want to do more on governance at this stage.

# Harry's reality check



- To do the FIT application you will have to have \$500 application fee, \$.50 kw for you application security, the application requires a structural assessment (\$500) and confirmation from an engineer that the roof size is big enough for the array (\$1500). Plus you will need your LDC consultation (free). And you will need to incorporate. Lawyer \$1500 and incorporation fee with NUANS search approx. \$500. Access rights needs to be documented. That means negotiating with City/Library lawyers. You will need to show that you have 35 members who are property owners and to complete the prescribed OPA form.
- We don't know when the window will open or for how long but when it closes OPA is saying 120 days for a FIT contract. At that time you will have to accept the contract or lose the application security. One or two groups we are working with are trying to do this – and I have encouraged them where I think they have the resources and the common vision. Are you ready for this and do you have the cash?



# Next steps with OSEA?



I am sharing with you a “little” policy we developed for members who put in \$\$\$ to get going.

- If we want to work with OSEA Harry sends us a letter of agreement. He writes:

What we do is help you with your CEPP application which includes a detailed budget (again we have a proven template) of who does what including incorporating local resources such as yourself. Our expectation is that we undertake a portion of the work at a per diem rate that recovers costs and leave a little for OSEA to support future activities/advice for other emerging groups such as the material that I have been sharing with you.

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- He sends on a sample letter.

# OSEA Policy continue..



- If there is an interest in working with OSEA going forward I would be happy to attend your meeting. I personally think that there needs to be more education on co-operatives before the group jumps. The unincorporated association with by-laws and an official executive is a good warm up and gives time to ask and answer serious questions.
- It is very easy then for the new co-op to assume the responsibilities of the Association. I think the only real but very manageable hassle is the closing and reopening of a bank account. But not a big deal. It all depends on the comfort and education of the group. One last point – my experience is it is sometimes better to “slow down up front in order to speed up latter on”.

# If we work with TREC



- As Graham explained TREC is willing to help us in less of a 'directive' way than OSEA in that they are more willing to do the pieces that we can't do ourselves and let us do the work we can do alone. So we will have more ownership of the process.

# Our time line



- We have formed an association for renewable energy. No by laws and directors.
- We have split into 'working groups' of 4 areas and 'leaders' are charged with exploring the main themes.
- Mission statement and vision, financing, co-op incorporation and governance.
- We have started looking at the CEPP application just to get a sense of what we need to pull together.
- We have proposed that the group members put in some dollars to the cause- \$100 or so each.
- On the library side; we have written a letter on behalf of the library to the city of Hamilton. Our councillor is helping to negotiate with the city for the use of the library roof. The library board supports the idea of a co-op. The roof has had a preliminary assessment by 2 companies and seems able to support 55 kwh plus.
- We have a web presence.
- CEPP -the program is not going to be launched next week because FIT 2.0 is still not ready to go.