



INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	March 30, 2015
SUBJECT/REPORT NO:	Civic Crowdfunding (FCS15029) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Brian MacDonald, Manager, Revenue Generation (905) 546-2424, Extension 3048 John Hertel, Director, Finance, Administration and Revenue Generation (905) 546-2424, Extension 2739
SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services Department
SIGNATURE:	

Council Direction:

At the May 7th, 2014, General Issues Committee Meeting it was resolved:

“That staff be directed to report back to the General Issues Committee with a high level overview of “civic crowd funding” and the feasibility of it being implemented.”

Information:

Executive Summary

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet. One early-stage equity expert described it as “the practice of raising funds from two or more people over the internet towards a common Service, Project, Product, Investment, Cause or Experience”.

The crowdfunding model is fuelled by three components: the project initiator who proposes the idea and/or project to be funded; individuals or groups who support the idea; and a moderating organization (the "platform") that brings the parties together to launch the idea. In most cases, a fee structure is charged by the platforms (usually a percentage based on the funded amount). Also, in some cases, a project will only receive the funds if the project reaches its funding goal, otherwise, the funds are returned to the funders. The alternative model allows the project to receive whatever funds are raised, regardless of whether the project reaches its funding goal.

With respect to the crowdfunding model itself, there are two primary types, equity and reward based crowdfunding. These are explained further below:

Crowdfunding Models:

1. Equity crowdfunding allows the funder to receive shares of a company, usually in its early stages, in exchange for the money pledged. The company's success is determined by how successfully it can demonstrate its viability. An example of this platform in Canada would be *SeedsUps*.

The more commonly known crowdfunding model, which includes such popular platforms as *gofundme*, *KickStarter* and *Indiegogo*, are reward based. This model enables entrepreneurs to pre-sell a product or service or to launch a business concept without incurring debt or sacrificing equity/shares. In some cases, the funders may be provided with rewards (such as material gifts or in-kind services), but in many cases, the funding is a purely philanthropic act to show support for the crowdfunding initiative.

2. Civic crowdfunding is a more recent development in the crowdfunding sector and does not operate under the same premises as the more conventional crowdfunding platforms. The critical component of civic crowdfunding is that the proposal is for a public space, as in something in which the community can access freely. Online proposals must include a description of the project, an explanation of how the money will be used to meet project goals and a pitch as to why the project is needed. Examples include Christmas decorations on a town bridge that were previously cut for austerity measures, launching a free WiFi zone at a local mall, or a campaign to save a community theatre company.

Crowdfunding Experience:

The first civic crowdfunding platform to launch was *Spacehive* in Europe in 2011. *Spacehive* is a United Kingdom based civic crowdfunding platform that allows citizens to contribute to neighbourhood improvement projects. A first of its kind, the *Spacehive* platform allows anyone to pitch an idea and request community support. In return,

community members can pledge funding. If the project funding target is reached, the project gets the green light.

There are no fees to post and donate to the project, however, *Spacehive* charges an administrative fee if a project reaches its fundraising goal. According to the *Spacehive* website, these administrative fees total 3.7% on the first 500,000 pounds raised, 2.5% on the next 500,000 pounds, and 1.5% thereafter.^[2] Current project goals range from 90 pounds to more than 600,000 pounds with the majority of projects falling in the range of 2,500 – 5,000 pounds.

Following *Spacehive's* launch, civic crowdfunding has taken off in the United States, Finland, and Holland. *Neighbor.ly*, launched in the U.S., uses a similar model to *Spacehive* with regards to civically based projects; however, rather than offering prizes or other monetary incentives, pledges are raised through an equity based investment model (i.e., normally Municipal bond issuances). The incentive is for the investing community to access more advantageous/diversified municipally-rated bonds through this platform.

Canada, and more specifically, Ontario is new to the civic crowdfunding space, however, there have been some entrants in this area. In 2012, civically based crowdfunding platforms were launched in Calgary and Waterloo.

Developed as a legacy project of Calgary's year as the Cultural Capital of Canada, *InvestYYC.com* is a crowdfunding website developed exclusively for Calgary-based artists and arts organizations to raise funds, find volunteers and generate awareness.

Applicants receive personalized support from Calgary Arts Development while they develop their project pages and crowdfunding plans. Project organizers also have access to crowdfunding training and best practices. Moreover, *InvestYYC* allows projects to provide tax receipts to cash donors via the Canadian Online Giving Foundation. This platform has experienced some success, having effectively funded 5 projects in the range of \$3,000 to \$20,000. In some cases, funds raised were matched by the Calgary Arts Department.

Similar to *InvestYYC*, *ifundwaterloo* was launched in 2012 and partnered with the City of Waterloo. This project did not experience the same level of success as *InvestYYC* and has since been taken down.

With regards to the Ontario and more specifically the Hamilton market, there currently appears to be two active civically based crowdfunding platforms. *RaisenAim*, a new entrant into this market who formally launched their site in June of 2014 and *FundHamOnt* launched in early 2014.

RaisenAim currently only has one project listed for funding and has only raised \$421 to date. *FundHamOnt* has listed more projects (seven since inception), however, it has yet been able to successfully fund a project. The most raised on any of the projects was \$420. Refer to Appendix 'A' of report FCS15029 for more detailed examples.

With respect to municipal involvement in civic crowd funding, historic performance in Europe and the U.S. has shown some success on smaller scales (i.e., \$5-10K projects). Some larger (\$100K) projects have also been funded but they have all been land acquisition-based and a significant amount of the funding came from larger corporations simply donating through the crowdfunding platform. Refer to Appendix 'A' of report FCS15029 which details a sample of various crowdfunding initiatives across Europe, the U.S. and Ontario (via our local crowdfunding platforms).

Conclusion:

It would appear that most municipal successes came as a result of the municipality offering partial funding, should the goal/remaining funds be successfully crowdfunded. This essentially creates a hybrid model that allows municipal dollars to go further. In all of the Canadian cases, the municipality has not taken on the hosting responsibilities of the civic crowdfunding initiative, rather providing support whether through dollar matching, communication support or marketing resources to support the campaign. It would appear special consideration on a project-by-project basis is utilized to determine exactly what form a municipalities support will take.