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MEMORANDUM

DATE: March 29, 2012

TO: Representative Cathy Muñoz, Chair
House Community & Regional Affairs

FROM: Representative Alan Austerman 
House Majority Leader

SUBJECT: Changes to House Bill 290 from Version B to Version E

The changes in Version E address issues that were raised by committee members on the January 28th, 2012, Community & Regional Affairs (C&RA) hearing, and additional issues that were raised while reviewing this bill with representatives of community foundations in Alaska, both in group and individual settings. Overall, the changes ensure that definitions and descriptions are consistent with current organizations and structures in Alaska. Other language that was unclear or confusing in the Alaska context was deleted or changed.

Additionally, some changes address policy level issues. These include:

- Clarifying that funds granted to community foundations and community foundation affiliates are meant to grow their *unrestricted endowed* funds.
- Removing the requirement that grantees demonstrate substantial compliance with the national standards of the National Council on Foundations.

A detailed list of changes is included in this memo.

~ Representing Alaska State House District 36 ~

Akhiok | Igiugig | Iliamna | Karluk | Kodiak | Kokhanok | Larsen Bay | Levelock
Newhalen | Nondalton | Old Harbor | Ouzinkie | Pedro Bay | Port Alsworth | Port Lions

Regarding the policy level changes, committee members may want to consider the following points. First, my intent in proposing this legislation has been to help build the *permanent endowed funds* held by community foundations. A community foundation may hold a large number of component funds, ranging from those that provide annual scholarships for students to those providing support to specific sports programs to those addressing support for families impacted by specific medical conditions. Not all funds within a community foundation are necessarily endowed, and not all can be applied broadly to the changing needs of a community. For the purposes of HB 290, though, I feel it is important to be clear that the purpose of these funds is to provide perpetual, broad-based benefit for Alaska communities.

Second, Version B of HB 290 as it was introduced included a requirement that eligible community foundation and affiliate grantees show “substantial compliance with the national standards of the National Council on Foundations.” This language was originally taken from the Endow Iowa statute. I and my staff have continued to discuss this provision with community foundation representatives around the state. As a result of these conversations, it is my recommendation that we remove this provision, for the following reasons:

- Only two of the community foundations currently operating in Alaska—the Alaska Community Foundation and the Homer Foundation—have pursued the Council on Foundations (COF) standards confirmation. This does not mean that other community foundations do not meet these standards—just that they have not gone through the COF confirmation process. The timeline for achieving standards is estimated by COF at 480 to 750 days.
- By mandating that grantees have this confirmation of standards, we essentially are mandating that these organizations engage in a certification process with a third party entity in order to access funds.
- It is my expectation that the lead philanthropic entity, through its due diligence process, would be reasonably equipped to determine whether an organization is a functioning community foundation or not.
- For practical purposes, the majority of current or future community foundations in Alaska function or likely will function as affiliates of the Alaska Community Foundation, in whom the state has already vested its trust by transferring the Alaska Children’s Trust to it.

In summary, I believe this requirement acts as a barrier to Alaska communities, and provides minimal benefit to the State.

Detailed Changes from Version B to Version E

Sec. 44.33.150

- Added language to clarify that grants under this program are for the purpose of growing unrestricted endowments

Sec. 44.33.160

- Deleted language (Version B, page 2, lines 5-6) that was taken from the Iowa legislation but did not accurately describe Alaska organizations.
- Deleted subsection (b) (Version B, page 2, lines 7-9) to remove the requirement for Council on Foundations national standards compliance.

Sec. 44.33.170

- Throughout the section, replaced “community affiliate organization” with “community foundation affiliate” to more clearly describe the organizations in Alaska.
- Deleted subsection (a)(4) (Version B, page 2, lines 17-18) to remove ambiguous language.
- Inserted language (Version E, page 2, lines 16-17) to clarify that funds should be used to help in the creation of new community foundations as well as the growth of existing ones.
- Replaced language in Version B that described a “plan for distributing grant funds” (p . 2, line 31) with language that describes a “spending policy” per the recommendation of community foundation representatives.
- Deleted subsection (b)(4) (Version B, page 3, lines 3-5) to remove possible conflicts with Sec. 44.33.190(1) (Version E, lines 7-8).

Sec. 11.33.180

- Replaced “organization” with “foundation affiliate” to more clearly describe the organizations in Alaska.
- Deleted subsection (2) which had specified that no more than five grants could be received within a single borough in a year.

Sec. 11.33.190

- Re-ordered sections (1) and (2) to correspond with the hierarchy of community foundations and their affiliates.

Information on Endow Iowa and Endow Kentucky.

Endow Iowa operated a grant program such as is envisioned in Alaska, as well as a tax credit program. The grant program was defunded after 5 years, once community foundation infrastructure was strengthened and contributions started to take off. The tax credit remains in place.

Grant Program Results:

	Challenge Amount	Number of Grants
2005	\$50,000	6
2006	\$50,000	3
2007	\$50,000	3
2008*	\$50,000	4
<i>* After 2008, the program transitioned to tax credit only</i>		

Program Successes (Grant plus Tax Credit)

- From program inception, grew from 20 community foundations to more than 130 today
- From June 2010 through 2011 endowed funds grew by \$100 million

Note: In a Transfer of Wealth Study, it was estimated that through probate estates alone, from 2020-2049, \$531 billion will transfer hands in Iowa.

Endow Kentucky is a tax-credit only program. It was enacted a year ago, and this is the first fiscal year in which it has operated. As of year-end 2011 (six months in to program operation) the amount allocated to match tax credit contributions to community foundations was \$261,010, meaning community foundation endowments had grown by more than \$520,000.

Alaska's Community Foundation Structure

Independent Community Foundations

These foundations hold their own funds and bear fiduciary responsibility for them, and handle local grantmaking and fundraising.

- Alaska Community Foundation
- The Homer Foundation
- The Juneau Community Foundation
- Arctic Slope Community Foundation
- Chugiak/Eagle River Foundation
- Bethel Community Services Foundation
- North Star Community Foundation

Alaska Community Foundation (ACF) is the largest, holding funds from around the state

- Funds include **community foundation affiliates**
 - Affiliates have local boards that control grantmaking and identify local priorities, as well as lead local fundraising efforts.
 - Chilkat Valley Community Foundation (Haines/Klukwan)
 - Jessica Stevens Community Foundation (Talkeetna and Upper Susitna Region)
 - Kenai Peninsula Foundation
 - Petersburg Community Foundation
 - Seward Community Foundation
 - ACF has the fiduciary responsibility and handles the grants administration.
 - ACF also has **community foundation partners**
 - These are independent foundations (Homer Community Foundation and Juneau Community Foundation) that have deposited a portion of their endowments with the ACF.