

HB1027 HD1

Measure Title: RELATING TO NONPROFIT CORPORATIONS.

Report Title: Nonprofit Corporations

Description: Amends the nonprofit corporations law to impose a duty of loyalty on directors and officers of nonprofit corporations, recodify provisions that would allow nonprofit corporations to convert into and out of domestic nonprofit corporations, and give the Attorney General additional time to review proposed dissolutions of nonprofits. (HB1027 HD1)

Companion: [SB893](#)

Package: Governor

Current Referral: CPH, JDL

Introducer(s): SOUKI (Introduced by request of another party)



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-NINTH LEGISLATURE, 2017**

ON THE FOLLOWING MEASURE:

H.B. NO. 1027, H.D. 1, RELATING TO NONPROFIT CORPORATIONS.

BEFORE THE:

SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH

DATE: Tuesday, March 14, 2017

TIME: 9:00 a.m.

LOCATION: State Capitol, Room 229

TESTIFIER(S): Douglas S. Chin, Attorney General, or
Hugh R. Jones, Deputy Attorney General

Chair Baker and Members of the Committee:

The Department of the Attorney General supports this Administration bill. The purposes of this bill are to partially restore a previously existing section of the State's nonprofit corporation law that allowed a domestic nonprofit corporation to convert to a foreign nonprofit corporation under certain circumstances, to clarify provisions concerning a director's statutory duties, and to make technical amendments to provisions regarding dissolution of certain nonprofit corporations.

A. Conversion Provisions.

The Attorney General proposed legislation in 2012 (H.B. No. 2458) repealing section 414D-207, Hawaii Revised Statutes (HRS), which allowed a domestic nonprofit corporation to convert to a foreign corporation "or any other business entity." The reason for repealing section 414D-207, HRS, was that, as written, the statute at the time allowed the diversion of charitable assets for use in for-profit activities in situations where a domestic nonprofit corporation could solicit and receive charitable donations intended for charitable purposes and then convert the entity to a foreign for-profit entity and use those charitable donations for the benefit of shareholders of a corporation or members of a limited liability company. H.B. No. 2458 was signed into law on April 20, 2012, as Act 37. In hindsight Act 37 went too far. When the Legislature repealed

section 414D-207, HRS, it also prevented domestic nonprofit corporations from converting to foreign nonprofit corporations.

This bill, if passed, will restore a portion of repealed section 414D-207, HRS, by: (a) authorizing domestic nonprofit corporations to convert to foreign nonprofit corporations; (b) creating a procedure regarding conversion; and (c) enacting provisions regarding the legal effect of a conversion.

Procedure

A domestic nonprofit corporation may convert into a foreign nonprofit corporation if: (a) the board of directors approves a plan of conversion in the manner prescribed by law; (b) the conversion is permitted and complies with the law of the state or country in which the converted entity will be incorporated; and (c) the corporation has members and the members of the domestic nonprofit corporation become members of the converted entity.

The proposed new section also allows for the abandonment of conversion before the time the conversion becomes effective. In addition, the bill provides for the filing with the State of articles of conversion.

Effect of Conversion

This bill contains provisions regarding the effect of conversion, in that after conversion the converted entity continues to exist and owns all property of the converting entity and its liabilities and obligations. The converted entity remains subject to civil proceedings in Hawaii and must irrevocably appoint an agent for service of process in Hawaii.

B. Director's Statutory Duties.

The duties of directors of nonprofit corporations are set forth in section 414D-149, HRS. At common law, directors of nonprofit corporations (as well as trustees of charitable trusts) have a duty of loyalty. Section 414D-149, HRS, does not presently expressly recognize a duty of loyalty, although a director's duty to act "in good faith" also implies such a duty. Likewise section 414D-155, HRS, implies a duty of loyalty. This bill amends sections 414D-149 and 414D-155, HRS, to expressly recognize that a

director has a duty of loyalty. The express duty of loyalty will help to educate directors of their duty of loyalty and to better protect the nonprofit corporation.

C. Technical Amendments.

The bill amends section 414D-233, HRS, to clarify that no assets of a dissolving corporation shall be transferred or conveyed until after twenty business days, rather than just twenty days, after the corporation gives the Attorney General the required notice of intent to dissolve.

We respectfully request that the Committee pass this bill and provide that this Act shall take effect upon its approval.



ALOHA SOCIETY OF ASSOCIATION EXECUTIVES
ASAE-Hawaii
P.O. Box 282
Honolulu, Hawaii 96809-0282

March 14, 2017

Testimony To: Senate Committee on Consumer Protection, and Health
Senator Rosalyn H. Baker, Chair

Presented By: Tim Lyons, Legislative Chairman
Aloha Society of Association Executives

Subject: HB 1027, HD 1 – RELATING TO NONPROFIT CORPORATIONS.

Chair Baker and Members of the Committee:

I am Tim Lyons, Legislative Chairman for the Aloha Society of Association Executives, a trade association composed of individuals who manage professional 501(c) (6) business organizations. We have confined our comments to only one (1) section of this bill. We are not concerned with Section 1 and after a more thorough review we really have no problems with Section 2 although we think it is redundant. We think it highly unlikely that a director could be prudent, act in the best interests of the corporation (414D-149) and at the same time be disloyal.

We do not think that the conflict of interest amendments should be included as it was in the Senate Draft. It is much clearer in the current law without the amendment and this is best accomplished with a Conflict of Interest Policy an organization should adopt.

The language and interpretations are entirely too convoluted and confusing to be generally understood by the average administrator without the benefit of counsel who generally is not in attendance at most meetings except by special request.

We support H.B. 1027, HD 1 without amendments.

Thank you.



***Our Vision:** Charitable organizations have the philanthropic resources necessary to fulfill their missions for a better Hawaii.*

***Our Mission:** We advance philanthropy throughout Hawaii by actively promoting the practice of ethical and effective fundraising with education, training, advocacy, and mentoring for the benefit of all, with the spirit of aloha.*

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March 14, 2017 at 9:00am

Conference Room 229

Senate Committee on Commerce, Consumer Protection, and Health

To: Senator Rosalyn H. Baker, Chair
Senator Clarence K. Nishihara, Vice Chair

From: Sanae Tokumura, ACFRE, APR
President

RE: HB 1027 HD1 – Testimony in Support

My name is Sanae Tokumura, President of the Association of Fundraising Professionals – Aloha Chapter (AFP Aloha Chapter). The AFP Aloha Chapter advances philanthropy throughout Hawaii by actively promoting the practice of ethical and effective fundraising. We are committed to education, training, advocacy, and mentoring in the field of fundraising for the benefit of all, with the spirit of aloha. Founded in Hawaii in 1983, the Association of Fundraising Professionals (AFP) Aloha Chapter is a professional association whose membership is comprised of persons involved in non-profit development, non-profit management and fundraising consulting. The chapter members represent organizations on Oahu, Maui, Kauai and the Big Island.

I write in support of HB 1027 HD1 which imposes a duty of loyalty on directors and officers of nonprofit corporations, recodifies provisions that would allow nonprofit corporations to convert into and out of domestic nonprofit corporations, and gives the Attorney General additional time to review proposed dissolutions of nonprofits. AFP Aloha Chapter appreciates the efforts being made in this proposed legislation to make easier the conversion of a local nonprofit entity to a foreign nonprofit entity or vice versa.

Thank you for the opportunity to testify in support of HB 1027 HD1.



Testimony to the Senate Commerce, Consumer Protection and Health Committee
Senator Roslyn Baker, Chair
Senator Clarence Nishihara, Vice Chair
Tuesday, March 14, 2017, 9:00 a.m.
Conference Room 229
HB 1027, HD 1 - Relating to Nonprofit Corporations

Dear Chair Baker and Vice Chair Nishihara, and members of the CPH Committee:

On behalf of the Hawai'i Alliance of Nonprofit Organizations, I would like express **support of HB 1027 HD 1**, relating to nonprofit corporations.

Hawai'i Alliance of Nonprofit Organizations (HANO) is a statewide, sector-wide professional association of nonprofits. Our mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i. Our member organizations provide essential services to every community in the state.

HANO appreciates the efforts being made in this proposed legislation to reinstate provisions to facilitate the conversion of a foreign entity into a domestic entity, and to allow the State Attorney General more time to review dissolutions of nonprofits.

Regarding imposing a duty of loyalty on directors and officers of nonprofit corporations, we support the new language in HD 1 that is "In a manner that is consistent with the director's duty of loyalty to the corporation."

Thank you for the opportunity to provide written testimony in support of these changes.

Mahalo,
Lisa Maruyama
President & CEO

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 12, 2017 9:44 PM
To: CPH Testimony
Cc: steveghi@gmail.com
Subject: Submitted testimony for HB1027 on Mar 14, 2017 09:00AM

HB1027

Submitted on: 3/12/2017

Testimony for CPH on Mar 14, 2017 09:00AM in Conference Room 229

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---------------------|---------------------------|---------------------------|
| Steve Glanstein | Individual | Support | No |

Comments: This is needed to protect the non-profit process. Good catch.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
Sent: Saturday, March 11, 2017 9:58 AM
To: CPH Testimony
Cc: dgsinhawaii@yahoo.com
Subject: *Submitted testimony for HB1027 on Mar 14, 2017 09:00AM*

HB1027

Submitted on: 3/11/2017

Testimony for CPH on Mar 14, 2017 09:00AM in Conference Room 229

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---------------------|---------------------------|---------------------------|
| Diana G. Smith | Individual | Support | No |

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 10, 2017 2:33 PM
To: CPH Testimony
Cc: tasam@caedes.com
Subject: Submitted testimony for HB1027 on Mar 14, 2017 09:00AM

HB1027

Submitted on: 3/10/2017

Testimony for CPH on Mar 14, 2017 09:00AM in Conference Room 229

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---------------------|---------------------------|---------------------------|
| Trever Asam | Individual | Support | No |

Comments: Aloha, Chair Baker, and members of the Committee, I am a private practice attorney and specialize in representing nonprofit corporations. Several years ago, certain provisions of the Hawaii Nonprofit Corporations Act relating to conversions of nonprofit corporations were deleted from the HRS. This was apparently done to prevent a specific type of transaction in which a nonprofit could be "converted" into a for-profit. When the changes were made, however, the entire section addressing "Conversions" was deleted. This had significant and unintended consequences, including that nonprofit corporations from other States could no longer become Hawaii nonprofit corporations. The proposed changes restore parts of the model act (used across the country) and would permit, for example, a California nonprofit corporation to "convert" to become a Hawaii nonprofit corporation. The sections that previously caused problems are still kept out of the Code. I believe these are good changes, and I thus support the bill. Thank you for your time.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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