

SB2747

Measure Title: RELATING TO NONPROFIT CORPORATIONS.

Report Title: Nonprofit Corporations

Description: Amends Chapter 414D, Hawaii Revised Statutes, to clarify that public benefit corporations may not purchase its memberships, to clarify that a person who does not have authority to vote as a member of the board is not a director, to clarify that a corporation with members may designate its directors, to add previous wording that was inadvertently removed through Act 87, Session Laws of Hawaii 2017, and to increase the length of time that the Attorney General has to review proposed sale of substantially all of the assets of public benefit corporations other than in the regular course of its activities.

Companion: [HB2320](#)

Package: Governor

Current Referral: CPH/JDC, WAM

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



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-NINTH LEGISLATURE, 2018**

ON THE FOLLOWING MEASURE:

S.B. NO. 2747, RELATING TO NONPROFIT CORPORATIONS.

BEFORE THE:

SENATE COMMITTEES ON
COMMERCE, CONSUMER PROTECTION, AND HEALTH AND ON JUDICIARY

DATE: Wednesday, February 07, 2018 **TIME:** 8:30 a.m.

LOCATION: State Capitol, Room 229

TESTIFIER(S): Russell A. Suzuki, First Deputy Attorney General, or
Hugh R. Jones, Senior Deputy Attorney General

Chairs Baker and Taniguchi and Members of the Committees:

The Department of the Attorney General supports this bill.

The main purposes of this bill are to (1) clarify that public benefit corporations may not purchase its memberships, (2) clarify that a person who does not have authority to vote as a member of the board is not a director, and (3) make other housekeeping amendments.

Purchase of Memberships

Public benefit corporations are normally prohibited from making any distributions other than for charitable purposes under section 414D-19, Hawaii Revised Statutes (HRS). Unlike shareholders of a corporation or partners of a partnership, members of a public benefit corporation do not have an economic ownership interest in the public benefit corporation. Therefore, a public benefit corporation's use of its charitable assets to purchase its memberships would amount to a distribution to its members and would evade the rule against distributing charitable assets for non-charitable purposes.

If passed, this bill will explicitly prohibit public benefit corporations from purchasing its memberships, prevent charitable assets from being used for non-charitable purposes, and conform the Hawaii Nonprofit Corporations Act to the Revised Model Nonprofit Corporation Act (1987).

Directors Must Have Authority to Vote

Based on the numerous inquiries received by our department, there appears to be confusion as to whether ex-officio directors, or individuals named as directors based on their position or status, who do not have any authority to vote as a member of the board are in fact directors of a nonprofit corporation for purposes of chapter 414D, HRS. Non-voting directors would be unable to perform their fiduciary duties as a director if they are unable to vote to take any action.

This bill clarifies that the term “directors” as used in the Hawaii Nonprofit Corporations Act only includes those who have the authority to vote as a member of the board.

Housekeeping Amendments

This bill also makes other housekeeping amendments, consistent with the Revised Model Nonprofit Corporation Act (1987) and other sections of the Hawaii Nonprofit Corporations Act, to clarify that a corporation with members may designate its directors, add words that had been inadvertently removed through Act 87, Session Laws of Hawaii 2017, and allow the Attorney General more time to conduct a review of a proposed sale of substantially all of the assets of a public benefit corporation other than in the regular course of its activities.

We respectfully request that the Committee pass this bill.



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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CHAPTER ADMINISTRATOR

Susan H. Oshiro

Wednesday, February 7th, 2018 at 8:30am
Conference Room 229

Senate Committee on Commerce, Consumer Protection, and Health

To: Senator Rosalyn H. Baker, Chair
Senator Jill N. Tokuda, Vice Chair

Senate Committee on Judiciary

To: Senator Brian T. Taniguchi, Chair
Senator Karl Rhoads, Vice Chair

From: Cathy Alsup, CFRE
President, Association of Fundraising Professionals, Aloha Chapter

Re: SB 2747 – Relating to Nonprofit Corporations

My name is Cathy Alsup, CFRE, 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 SB 2747 which clarifies regulations for membership and directorship of public benefit corporations and which increases the length of time that the Attorney General has to review proposed sale of all of the assets of public benefit corporations.

SB 2747 helps to clarify operating guidelines for public benefit corporations regarding membership and qualifications to be a director of such an organization. The specific updates to the Hawai'i Revised Statutes that this measure makes will ultimately help members of AFP Aloha Chapter to comply by our State laws that govern organizational structure and operating procedures.

Thank you for the opportunity to testify in support of SB 2747.