

TESTIMONY OF THE DEPARTMENT OF THE ATTORNEY GENERAL TWENTY-SIXTH LEGISLATURE, 2011

ON THE FOLLOWING MEASURE:

S.B. NO. 1233, S.D. 2, H.D. 1, RELATING TO THE SOLICITATION OF FUNDS FROM THE PUBLIC.

BEFORE THE:

HOUSE COMMITTEE ON FINANCE

DATE:

Wednesday, March 30, 2011

TIME: 3:00 p.m.

LOCATION:

State Capitol, Room 308

TESTIFIER(S): David M. Louie, Attorney General, or

Hugh R. Jones, Supervising Deputy Attorney General

Chair Oshiro and Members of the Committee:

The Department of the Attorney General strongly supports this bill in its current form. This bill has been supported by the Better Business Bureau of Hawaii, the Consumer Protector, Hawaii Association of Independent Schools, the Nature Conservancy of Hawaii, the Council on Advancement of Education, and private citizens.

This bill is similar to House Bill No. 1006, H.D. 1, which passed second reading by your committees on February 17, 20111.

The purpose of this bill is to amend Hawaii's charitable solicitation law to: (1) clarify ambiguous provisions, (2) strengthen provisions that will allow the Attorney General to investigate alleged violations by mainland domiciled charities and professional fundraisers, (3) facilitate compliance by the charitable sector, and (4) make other "housekeeping" amendments.

More than 1,670 charitable organizations that solicit funds from Hawaii donors are currently registered with the Department

¹This bill is also similar to Senate Bill No. 2669, S.D. 2, from the 2010 legislative session that crossed over to the House but was not heard by its assigned subject matter committee.

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as required by chapter 467B, Hawaii Revised Statutes². Approximately 35 percent of these registered charities are domiciled in Hawaii. There are presently 48 professional solicitors and 190 professional fundraising counsels that are registered with the Attorney General.

A. Service of Process on Out of State Charitable Organizations

About 65 percent of all registered charitable organizations, and almost all their professional solicitors soliciting contributions in Hawaii, are domiciled on the mainland. This bill designates the Attorney General as the agent for service of process for non-Hawaii domiciled charitable organizations, professional solicitors, and fundraising counsels, to facilitate the service of subpoenas and other legal process. This is a common feature of many other states' registration laws. After the Attorney General accepts service of process for a non-Hawaii domiciled charitable organization, professional solicitor, or fundraising counsel, that process will be sent to the charitable organization, professional solicitor, or fundraising counsel by registered mail, return receipt requested, at the last known address on file with the Department. This amendment will facilitate better enforcement of the law, because, at present, it is impossible for the Attorney General to serve subpoenas for mainland domiciled charities and their solicitors.

²A publicly searchable registry of these charities' registration forms and IRS data and their document images can be found at: http://ag.ehawaii.gov/charity.

B. Substituted Service on Hawaii Domiciled Charitable Organizations

For similar reasons, this bill allows the Attorney General to serve process on Hawaii-domiciled charitable organizations by substituted service if personal service cannot be accomplished in Hawaii, or if they have no registered agent with the Department of Commerce and Consumer Affairs. Substituted service would include registered or certified mail, or such other method as a court would allow, such as service by publication.

C. Cease and Desist Orders

This bill would allow the Attorney General to issue cease and desist orders — authority currently lacking in the law. This authority could be used to direct non-registered charities or professional solicitors from soliciting funds or to direct a cessation of other practices that violate the law. Any cease and desist order would be subject to administrative review upon request of the party affected.

D. Clarification of Annual Financial Reports by Registered Charitable Organizations

Hawaii's charitable solicitation law requires each registered charitable organization to annually submit a financial report, and in some cases, an audited financial statement. The present law does not state explicitly what must be included in the financial report. To provide greater clarity and simplify compliance, this bill designates registered charities' Form 990, 990EZ, or 990PF - which charities must already prepare and submit to the IRS every year - as the annual financial report. The bill also clarifies the deadline for the filing of annual financial reports by linking that deadline to the deadline for the filing of Form 990, 990EZ, or 990PF: the

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fifteenth day of the fifth month following the close of the taxable year. The bill requires charities that have obtained an extension of time to file their Form 990, 990EZ, or 990PF to submit a copy of the IRS-approved extension request to the Department of the Attorney General.

In addition, the bill authorizes the Attorney General to designate what must be included in a financial report by organizations that do not file a Form 990/990EZ with the IRS. For example, after December 31, 2010, charities that have less than \$50,000 in income will file Form 990N (an electronic postcard with the IRS) — up from the current \$25,000 income threshold. Still other organizations that solicit funds for charitable purposes, are not legally charities and do not report to the IRS.

The bill also clarifies that audited financial statements submitted to the Department of the Attorney General must be prepared according to generally accepted accounting principles.

E. Enforcement Related Amendments

This bill amends section 467B-6.5, Hawaii Revised Statutes, to also impose the existing fine or late fee for reports or registration statements, on the annual fees assessed to all charitable organizations. Presently, there is no fine for charities that fail to timely pay their annual fee, which are due when charities submit their financial report.

The bill amends section 467B-9.3, Hawaii Revised Statutes, to allow the Attorney General to accept an "Assurance of Discontinuance." This is a common feature of many charitable registration and consumer protection laws, including section 487-12, Hawaii Revised Statutes. As part of any such assurance, the charity could be required to pay the costs of the Attorney General's investigation, if any.

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F. Clarification of Exemptions from Registration Requirement

This bill amends section 467B-11.5, Hawaii Revised Statutes, to clarify exemptions to the registration requirements.

1. Religious Organizations

The bill amends the exemption for duly organized religious corporations, organizations, and societies by limiting the exemption to organizations that are not required to file Form 990 or 990EZ with the IRS, such as churches, synagogues, or mosques. Many other types of religious organizations are required to annually report to the IRS by filing a Form 990 or 990EZ, and a great number of these organizations receive substantial sums of money from donors. Requiring religious organizations that are required to report to the IRS to register and annually submit their Form 990 or 990EZ to the Attorney General will provide for greater accountability by those organizations, and will enable donors to make better informed giving decisions. Several states' exemptions for religious organizations are similarly limited to those organizations that do not report to the IRS.

2. Accredited Educational Organizations

Currently, the exemption for accredited educational organizations is limited to organizations whose curricula are registered or approved by any state or the federal government. The State of Hawaii does not accredit private schools. This bill replaces the current exemption with an exemption for

³ There is a memorandum of understanding between the Department of Education (DOE) and the Hawaii Council of Private Schools (HCPS) that allows the HCPS to license private schools but the DOE does not license private schools directly. Public schools are exempt from registration under other provisions of the law.

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private schools accredited by certain accrediting bodies including those regional accrediting bodies that accredit post secondary educational institutions. The bill also exempts organizations that support accredited schools provided that they primarily solicit alumni, parents, students and trustees, and provided that they have an established identity with the supported organization. This will provide greater clarity in the law and facilitate compliance by the charitable sector.

3. Government Agencies and Instrumentalities

This bill clarifies the existing exemption by creating a free-standing exemption for government agencies. It also clarifies the existing exemption for government instrumentalities by limiting it to corporations that are established by act of Congress and that annually report to Congress - for example, the American Red Cross. Other corporations that were created by Congress are not required to annually report to Congress - for example, the National Park Foundation, the United Service Organizations, U.S. Naval Academy Foundation, American Ex-Prisoners of War, AMVETS, Disabled American Veterans, Jewish War Veterans of the United States of America, Paralyzed Veterans of America, and Veterans of Foreign Wars of the United States.

4. Small Charities

This bill clarifies the existing exemption for charities that normally receive less than \$25,000 by limiting the exemption to charities that do not employ professional solicitors or fundraising counsels. The current limitation for charities that do not compensate a person primarily to conduct solicitation is unclear in that it could include salaried staff

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as well as independent contractors, such as paid professional solicitors.

G. Senate Amendments to Reduce Annual Fees

At the request of the Attorney General, the Senate's subject matter committees amended the bill to reduce the annual fees paid by those registered charities with gross revenues exceeding \$1,000,000 annually. If House Draft 1 becomes law, it will lower the gross annual fees collected by over \$132,000 annually and give meaningful financial relief to the charitable sector, while still generating the funds necessary to sustain Hawaii's charitable oversight function.

We respectfully request the favorable consideration of this bill.



Wednesday, March 30, 2011 3:00 p.m. Conference Room 308

TESTIMONY TO THE HOUSE COMMITTEE ON FINANCE

RE: SB 1233, SD 2, HD 1 – Relating to the Solicitation of Funds from the Public

Dear Chair Oshiro, Vice Chair Lee, and Members of the Committee,

My name is Robert Witt and I am executive director of the Hawaii Association of Independent Schools (HAIS), which represents 99 private and independent schools in Hawaii and educates over 33,000 students statewide.

The Association is in strong support of Senate Bill 1233, SD 2, HD 1 – Relating to the Solicitation of Funds from the Public, which amends Chapter 467b, Hawaii Revised Statutes, to strengthen and clarify provisions of the registration law to allow for more efficient enforcement of the law and facilitate compliance by the charitable sector.

HAIS is specifically concerned with Section 5, which amends and clarifies the charity registration exemptions as they pertain to accredited educational organizations. Currently, the exemption for accredited educational organizations is limited to organizations whose curricula are registered or approved by any state or the federal government. The State of Hawaii does not accredit private schools. This bill replaces the current exemption with an exemption for private schools accredited by certain accrediting bodies. This will provide greater clarity and facilitate compliance.

Thank you for this opportunity to testify in support of this measure.

Fax (808) 545-2019



Testimony of The Nature Conservancy of Hawai'i Supporting S.B. 1233 HD1 Relating to the Solicitation of Funds from the Public House Committee on Finance Wednesday, March 30, 2011, 3:00PM, Rm. 308

The Nature Conservancy of Hawai'i is a private non-profit conservation organization dedicated to the preservation of Hawaii's native plants, animals, and ecosystems. The Conservancy has helped to protect nearly 200,000 acres of natural lands for native species in Hawai'i. Today, we actively manage more than 32,000 acres in 11 nature preserves on Maui, Hawai'i, Moloka'i, Lāna'i, and Kaua'i. We also work closely with government agencies, private parties and communities on cooperative land and marine management projects.

The Nature Conservancy of Hawai'i supports the housekeeping provisions of S.B. 1233 HD1 Relating to the Solicitation of Funds from the Public. This measure will assist the Attorney General's office with its oversight of charities operating in Hawai'i for the benefit of the people of this state and the charities themselves.

As important to The Nature Conservancy's efforts to protect plants, animals and ecosystems is how we conduct ourselves in our drive for lasting conservation results. At the very top of the list of values held and required of all who represent The Nature Conservancy is **integrity beyond reproach**. We will meet the highest ethical and professional standards in all of our organizational endeavors and, in doing so, we demand of ourselves that we:

- Are honest at all times:
- · Accountable to each other, our mission, our donors, members, partners, and the public; and
- Earn trust by building relationships, being competent, and following through on all commitments.

The Conservancy appreciates the ongoing efforts of the Attorney General's Office and the Legislature to craft legislation that will serve to provide additional knowledge and transparency to the people of Hawai'i regarding the charities they so generously support. We also wish to thank the Attorney General's Office for its work to balance the need for relevant information from Hawai'i nonprofits while establishing a system that does not impose undue financial or other hardships on charities' missions. We look forward to continuing to help ensure the public's confidence in Hawaii's nonprofit sector.



March 29, 2011

Rep. Marcus R. Oshiro, Chair House Committee on Finance State Capitol, Room 422 415 South Beretania Street Honolulu, HI 96813

Re: Our support for SB 1233

Dear Mr. Chairman:

On behalf of the more than 300 nonprofit members of the Nonprofit Federation of the Direct Marketing Association (DMANF), twenty-five of whom are colleges, universities and their related foundations, I am writing to offer our enthusiastic support for SB 1233 SD2 HD1 in its entirety.

The bill would amend Hawaii's charitable solicitation law in a number of ways, much aimed at enabling more efficient enforcement by the Attorney General. Such measures can, in the long run, only benefit reputable and law-abiding charities. That describes our membership. Accordingly, we encourage the Committee to approve the legislation in order to give the AG the regulatory tools he needs.

The bill also would bring Hawaii's reporting exemptions more in line with practice in other states. This is a benefit to national and regional nonprofits, will facilitate their compliance, and will also benefit the AG's enforcement efforts. The bill would narrow the exemption for "religious" organizations, limiting it to churches, religious orders, and their "integrated auxiliaries" (in IRS-speak). This means that many "religious" organizations raising funds from the general public would have to register, as they do in many other states. It would also broaden somewhat the exemption for colleges and universities, recognizing their many existing accountability obligations and the fact that they tend to solicit funds from a narrow band of the public. Each of these changes is sound public policy and we specifically endorse them.

DMANF is the leading association for nonprofit organizations that use direct marketing channels such as mail, Internet, email, telephone, and social networking to gain support from individual donors. For more than 25 years, the Federation (and its predecessor organizations) has advocated, both in Washington, DC and in all 50 states, for nonprofits regarding postal rates and delivery service, privacy & data protection, fundraising accountability, and other legislative and regulatory issues that affect nonprofits raising money from the public.

We thank you for the opportunity to support this bill.

Sincerely, Sarry Boone

Senny Boone, Esq.

SVP, Corporate and Social Responsibility



March 29, 2011

Chair Marcus Oshiro Committee on Finance Hawaii State House of Representatives State Capitol, Room 308 Honolulu, HI 96813

RE: SENATE BILL 1233, SD 2, HD 1 RELATING TO THE SOLICITATION OF FUNDS FROM THE PUBLIC

Chair Oshiro, Vice Chair Lee and committee members:

The Hawai'i Alliance of Nonprofit Organizations is a statewide, sector-wide professional association for nonprofits. HANO's mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i. HANO has member organizations serving every community across the state.

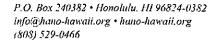
HANO supports transparency and best practices for Hawaii's nonprofit sector to maintain the trust of its government and for-profit partners and donors. We support this legislation to the extent that, in its clarified form, it proactively identifies those who violate the basic rules that govern nonprofit fundraising activities and who purport to be assisting nonprofit organizations when they are instead hurting nonprofits.

We have concerns over several technical points. HANO notes that independent schools have been exempted from this registration requirement because there are external accrediting bodies in existence that provide oversight and proper review of their fundraising activities. The SD 2, HD 1 version contends that these bodies solicit mostly parents and alumni and therefore do not need to be subjected to the same scrutiny. We would like to note that these entities also still solicit individual donors and the corporate community, similar to every other charitable nonprofit.

I would also like to note that many other nonprofits are also monitored by accrediting bodies like the Commission on Accreditation of Rehabilitation Facilities (CARF) or the Joint Commission, which accredit healthcare facilities as well as the Better Business Bureau. If the existence of an independent accreditation suffices to provide proper scrutiny over fundraising activities, enough to exempt a nonprofit organization from AG registration, other accredited nonprofits should be exempted from this law.

We are not asking for removal of those entities currently exempted in the current draft, but merely a fair process in considering which organizations should be exempted.

We support the component of the bill that clarifies the exemption for those organizations making \$25,000 or less in contributions and do not employ or compensate a professional solicitor or professional fundraising counsel.



HANO Testimony SB 1233, SD 2, HD 1 House FIN Committee Hearing March 29, 2011 Page Two

We also note that the annual fee (tiered fee structure) that accompanies the filing of the organization's 990 tax form can be a financial hardship in these challenged economic times when nonprofit budgets are bare bones. HANO appreciates the lowered fees for the upper tiers to provide financial relief to all organizations that need to file annually with the Attorney General's office but feel the fees could be further lowered.

To the extent possible, HANO would like to work with the State Attorney General's office to make the nonprofit registration process as simple and understandable as possible to ease the burden of multiple reporting endeavors and compliances on nonprofit organizations.

HANO will continue to partner with the State AG's office to assist in disseminating information to the nonprofit sector to ensure that all nonprofits that are required to register are compliant.

Thank you for the opportunity to provide testimony.

Mahalo,

Lisa Maruyama President and CEO



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Testimony before the Committee on Finance on S.B. 1233, Relating to Solicitation of Funds from the Public

John Lippincott President Council for Advancement and Support of Education

> March 30, 2011 3:00 pm Conference Room 308, State Capitol

As president of the Council for Advancement and Support of Education (CASE), an association that includes 16 institutional members in Hawaii and more than 3,400 worldwide, I encourage the committee to support S.B. 1233 SD2 HD1 as amended, legislation that exempts institutionally related foundations and alumni associations from the state's charitable solicitation registration requirements.

Headquartered in Washington, D.C., with offices in London, Singapore and Mexico City, CASE is the professional organization for advancement professionals at all levels who work in alumni relations, communications, fundraising, marketing and other areas. CASE helps its members build stronger relationships with their alumni and donors, raise funds for campus projects, produce recruitment materials, market their institutions to prospective students, diversify the profession, and foster public support of education.

CASE also offers a variety of services for public college and university foundations, also known as institutionally related foundations, and independent alumni associations. While legally separate, these organizations are authorized by their public colleges and universities to raise and manage private support on behalf of their institutions. They also have an established identity with the institutions they support (i.e. University of Colorado Foundation, University of West Florida Foundation).

State charitable solicitation laws are designed to protect the general public from fundraising fraud and abuse. Most states exempt educational institutions from the registration and reporting requirements in these laws because 1) they primarily seek charitable contributions from constituents and organizations that are connected to their institutions, and 2) they are typically large, highly visible institutions accountable to multiple constituencies, such as their governing boards, faculty, students, donors and state and federal agencies. The same could be said of the institutionally related foundations and alumni associations that raise private support on behalf of public colleges and universities.

The original version of S.B. 1233, as introduced, exempted both public and private educational institutions from charitable registration requirements but did not exempt institutionally related foundations or alumni associations. Since most public colleges and universities raise private support through their foundations and/or alumni associations, the entity that was exempt under the original bill (the educational institution) was not the primary entity soliciting funds. Practically speaking, private colleges and universities would have been exempt from the requirements in the original bill while many public colleges and universities would not have been exempt.

CASE supports S.B. 1233, as amended by the House Committees on Consumer Protection & Commerce and Judiciary, which equalizes the treatment of public and private colleges and universities under the law. If enacted, the bill would exempt many institutionally related foundations and alumni associations from

the registration requirements and includes two tests that should limit the organizations eligible for the exemption:

- 1) the 501(c) organization must be authorized by AND have an established identity with the educational institution, and
- 2) solicitation of contributions by such organizations must be primarily directed to students, alumni, faculty and trustees of such institutions and their families.

Again, CASE encourages the committee to support S.B. 1233 SD 2 HD1 as amended, which exempts institutionally related foundations and alumni associations from the state's charitable registration requirements. Without this exemption, these legitimate, highly visible organizations will have to divert staff time and resources away from their missions to comply with requirements designed to protect the public from fraudulent charities that are less visible and accountable.

I appreciate the opportunity to provide testimony, and encourage you to contact me if you have any questions about CASE or my testimony. Thank you for your consideration and your commitment to protecting the citizens of Hawaii from charitable fundraising fraud and abuse.



Holly J. Huber

1519 Nuuanu Ave #154 ● Honolulu, Hawaii 96817

(808) 554-7692 • hollyjhuber@gmail.com honolulupropertytaxreform.wordpress.com

Hawaii House of Representatives Committee on Finance Hawaii State Capitol, Room 308 Hearing: Wednesday, March 30 @ 3:00 PM

RE: Testimony in Support of SB 1233 SD2 HD1 Relating to Solicitation of Funds from the Public

Aloha Representatives:

I support SB1233 SD2 HD1. The Attorney General's office describes this bill as a "housekeeping" measure but that is an understatement. Currently under HRS §467B-11.5, charitable organizations exempted from registration and financial disclosure requirements include "(1) Any duly organized religious corporation, institution, or society;"

SB1233 SD2 HD1 corrects this exemption to mirror federal requirements by ensuring that nonprofits currently required by the US government to file IRS 990 forms, are also required to register with and disclose finances to the State of Hawaii. The exemption change proposed in the bill, has been endorsed by the American Institute of Philanthropy (AIP) since 1998.

By changing the registration exemptions for charitable organizations, SB1233 SD2 HD1 adds transparency and oversight. Currently, nonprofits can avoid financial disclosure, registration, and fees simply by claiming a religious purpose.

The current exemption in HRS §467B-11.5 violates the separation of state and church by favoring religion over non-religion. It is unconstitutional to require secular groups to register and pay fees while exempting non-secular organizations from the same requirements.

The state's Registry of Charitable Organizations is an excellent source of information on Hawaii's nonprofits. The addition of religious organizations would greatly improve the public's access to important facts and figures so they can make informed decisions regarding charitable giving.

There are too many multi-million-dollar religious organizations, including many on the mainland, that solicit funds in the State of Hawaii but are not registered here. Please correct that by voting YES on SB1233 SD2 HD1.

Sincerely,

Holly J. Huber Public Advocate

Natalie J. Iwasa, CPA, Inc.

1331 Lunalilo Home Road Honolulu, HI 96825 808-395-3233

TO: Committee on Finance

DATE: 3 p.m. Wednesday, March 30, 2011

RE: SB 1233, SD2, HD1 Relating to Solicitation of Funds from the Public – Two

Amendments Requested

Aloha Chair Oshiro, Vice Chair Lee and Members of the Committee,

This bill makes changes to the charity registration law that went into effect the beginning of 2009.

Amendment #1 - According to the bill, a charitable organization is allowed to request an extension of time to file by submitting "a copy of the Internal Revenue Service's approved extension of time to file." Please clarify what is meant by "approved extension." If this refers to the form used by organizations to make a request for extension, please consider revising the wording to indicate that a copy of the IRS's Form 8868 is acceptable.

If the intention is for the organization to submit a copy of IRS Notice CP211A, Application for Extension of Time to File an Exempt Organization Return, which is the letter in which the IRS states whether the application has been approved, it is important to note it may not be possible for the organization to comply with this mandate in a timely manner. In my experience, it takes weeks and sometimes a couple of months for the IRS to send out these notices. In the time that it takes the IRS to send the letter, an organization may have already completed their Form 990 or 990EZ. If this is the intention, please consider revising the requirements to allow organizations to submit the Form 8868 in lieu of the IRS approval letter.

Amendment #2 - Section 2(c) indicates the department may grant an extension of time "not to exceed three months." The IRS allows two three-month extensions, so under Section 2(a) of the bill, an organization may obtain a six-month extension by filing the IRS's "approved extension of time to file." Why should some organizations be given six months and others only three? Please amend this section to make it equitable for all organizations.

Before finalizing this bill, please make these two amendments.

FINTestimony

⊏∵om:

mailinglist@capitol.hawaii.gov

Wednesday, March 30, 2011 10:50 AM

FINTestimony

Cc:

dkealoha@hawaii.bbb.org

Subject:

Testimony for SB1233 on 3/30/2011 3:00:00 PM

Testimony for FIN 3/30/2011 3:00:00 PM SB1233

Conference room: 308

Testifier position: support Testifier will be present: No Submitted by: dwight kealoha Organization: Individual

Address: Phone:

E-mail: dkealoha@hawaii.bbb.org

Submitted on: 3/30/2011

Comments:

Hawaii's BBB supports the bill as it includes those elements that should have been included in the original legislation. Most important it provides donors additional safegards from potenetial scam artists. When combined with the results of the BBB's charity review itgives the donor a much better assessment of the charity being assessed.