

**MINUTES**

**GOVERNOR'S TASK FORCE ON  
ENDOWMENTS AND PHILANTHROPY**

Montana School Boards Association Conference Room  
Thursday, July 21, 2005

**Members Present:**

Sue Talbot, chair	Brian Magee
Barbara Anthony	Galen McKibben
Dale Burgeson	Sharen Peters
Linda Coulston	Alberta Rivera
Donna Davis	Jim Soft
John Delano	Peter Sullivan
Mike Halligan	Josh Turner
Amy Kelley	

**INTRODUCTIONS**

Sue introduced Vern Peterson, former Fergus County Commissioner and one of the original Task Force members. Dale introduced Art Stein, the Salvation Army's Planned Giving Director based in San Francisco.

**APPROVAL OF JUNE MINUTES**

Sue asked if any changes need to be made to the June minutes. Hearing none, John Delano motioned to accept them as distributed; Peter seconded the motion. The group unanimously approved the minutes by voice vote.

**FINANCIAL REPORT**

Sue distributed the Task Force Statement of Activities for June 1, 2005 through June 30, 2005. It showed \$250.00 in contributions and \$772.75 in expenses for an ending fund balance of \$7,415.37.

The August statement shows revenue increased by \$300 (a contribution from Intermountain Children's Home).

Our expenses totaled \$1,165.18. We showed a deficit of (\$865.18), so the ending fund balance was down, the final figure being \$5,356.19.

Sue asked for reports on fundraising efforts. Judy Wing reported that St. Pat's hospital is inclined to make a gift from the foundation as well as a personal gift from Joel Lankford, the foundation's Executive Director. Dale noted that the Salvation Army would be renewing its annual support in September. Sue reported that she has not had any luck in her contacts with the large banks.

**MEETING WITH THE DEPARTMENT OF REVENUE**

There was a round of introductions, with each TF member giving a brief overview of his/her affiliation with the Task Force, and reciprocal introductions from Dan Bucks, Director of the MT Department of Revenue, and Jim McKeon, DOR Tax Specialist and liaison to the Task Force. Sue gave a brief history of the Task Force.

Mr. Bucks asked whether any other states have a similar tax credit, and/or whether Montana was the first. Sid replied that the Task Force initially modeled the tax credit off of a Michigan credit, but changed it substantially when the credit was introduced the next legislative session. Since its enactment, several other states have adopted a similar if not exact tax credit, including Nebraska and North Dakota.

Mr. Bucks explained that when the tax credit was first established, the DOR reviewed the credits claimed and made some adjustments in order to correct errors. He said that, while no one likes audits, they have had the effect of helping educate the CPA community. He felt that they have gone through most of that education process, and are maintaining communication with the CPA community. He asked whether the TF communicates with the CPAs. John Eastman explained the Lunch & Learn seminars, and that the TF may hold another this fall, with tax credit substantiation requirements as one of the agenda items. Mr. Bucks asked whether the DOR had ever joined in on that effort; John said no. Mr. Bucks requested that the DOR play a role in the fall seminars. The group was very enthusiastic about the offer; Sid noted that it would be helpful in terms of offering Continuing Education credit.

Mr. Bucks discussed electronic filing, how the Department has been encouraging it but that it doesn't allow people to electronically file the tax credit substantiation documents. He is not optimistic about getting the major tax software companies (e.g. Turbo Tax, Tax Cut) to include the forms in their Montana state tax programs – our state is simply too small a market for them to make the effort. That said, he felt that electronic submission of information remains the frontier for revenue agencies. He said that they would be looking in the future at getting that information electronically. He added that they are in the process of replacing a previously failed computer system, and that the company they are working with is looking at ways of putting out and receiving information through the web. Other states are experimenting with this; Montana will be looking at those experiments to see what it might be able to incorporate.

John Scibek asked Mr. Bucks about getting tax credit information in order to assess how it is working. Mr. Bucks shared with the group the following rounded-off numbers:

Individual Taxpayers, 2000: 1712 individuals claimed a total of \$6.9 million (average \$4,000)  
 2001: 1892 individuals claimed a total of \$7.4 million (average \$3,900)  
 2002: 676 individuals claimed a total of \$1.6 million (average \$2,382)  
 2003: 707 individuals claimed a total of \$2.1 million (average \$3,000)

Jim McKeon noted that the drop was due in part to the reduction in the tax credit that the legislature imposed.

Corporations, 2001: 127 corporations claimed \$700,000 (average \$5,500)  
 2002: 125 corporations claimed \$620,000 (average \$5,000)  
 2003: 77 corporations claimed \$425,000 (average \$5,500)  
 2004: 52 corporations claimed \$118,000 (average \$2,200)

Mr. Bucks noted that he found it interesting that the money is being generated on the individual (planned gifts) side rather than from the corporate gifts. He noted that because it is money coming out of the general fund, there is significant State participation in this. Sid responded that the true fiscal impact is deceptive because the income tax generated from planned gift income is not reflected in the numbers.

Mr. Bucks said that the DOR should give these figures to the Task Force annually. Jim McKeon noted that last year 60% of the returns were filed electronically. This year there are even more electronic than paper returns. Since those returns do not automatically file the “Qualified Endowment Credit” (QEC) forms, the DOR does not have all of the information that the Task Force would like. Mr. Bucks said he thought the tax credit was a win-win-win situation for the taxpayers, the nonprofits, and the State – although he noted that they do not have the hard data to support that, only the stories. John Scibek asked whether we’d have to wait until October/November for the 2004 information for individual taxpayers; Mr. Bucks said yes.

Mr. Bucks asked how well the TF thought the DOR was doing in terms of informing people about the tax credit; John Scibek replied “great,” and commended the DOR for making the QEC form much more clear. Jim McKeon agreed that there was confusion when the tax credit was first established, but thought that the DOR had a much better understanding of it now, as well as better enforcement.

Mr. Bucks asked whether there is a general source of information for people to go to who are interested in contributing to a Montana charity. Sue explained that the EndowMontana website has an interactive map listing all of the counties and the endowments held within them, although the list is being updated and is not inclusive. Mr. Bucks suggested linking the EndowMontana web site with the DOR website.

Mr. Bucks shared with the group his experience with tax checkoffs on the Montana individual tax forms. When he worked with the Department in the 1980s, when the checkoffs were first initiated, he would grumble about the “administrative complications” associated with them. He has since changed his attitude, and sees them as an opportunity for people to give back to the community. He would like the State to put out more information about the various ways people can contribute, to reflect the change in the spirit of giving. He added that there would be significant changes in the tax forms next year. One problem is that in both the “Additions to Income” and “Deductions” sections there is an “Other” space that masks a large number of specific categories. For example, the form lists 16 deductions out of a possible 34. The tax software prompts electronic filers about the various possible deductions, creating an inequitable situation: when the deductions are not specifically listed on the form, the paper filers tend to miss them. Next year they intend to list the specific categories, in the booklet if not on the form itself. One positive result for the Department would be the ability to collect more data.

Sue thought that an upcoming change in the tax forms would be important to communicate in the Lunch & Learn seminar; Mr. Bucks agreed and thought this would be one way they could participate. Dennis expressed enthusiasm for the Department taking part in the L&L seminars, noting that it adds authority.

In closing the meeting, Mr. Bucks reiterated that they’d like to know about any events the DOR might participate in, especially those involving practitioners. Barb thanked the DOR for its willingness to meet and its enthusiasm, and added that the TF as a group and its members individually work collaboratively with many other entities across the state. To leave them with more information, Sid handed out a piece she’d written several years ago about the growth in Montana’s philanthropic community (see attached, as well as her June 2003 update).

Following the meeting, Spence suggested asking the DOR to more regularly participate in the TF meetings. It was noted that Jim McKeon is already listed as a “liaison,” but his travel schedule is extremely busy. The group decided it would be a good idea to suggest regular attendance to Mr. Bucks. Sue suggested assigning specific spots on the agenda where their participation would be useful, so that they wouldn’t have to attend the entire meeting. **Sue will write Mr. Bucks a letter to that effect.**

### FEDERAL LEGISLATION UPDATE

John Scibek reported that Sen. Byron Dorgan introduced the “Public Good IRA Rollover Act,” which reflects the bill submitted in the House. It allows rollovers to outright gifts at 70 ½ and to planned gifts at 59 ½. He also reported on several other federal issues:

- On March 30, 2005, Treasury and IRS published Rev. Proc. 2005-24, which is intended to provide a safe harbor procedure to avoid the disqualification of a charitable remainder trust because of the existence of a spousal right of election under state law. Conrad Teitell published a comprehensive critique of the procedure and the chilling effect it will no doubt have on donors, their advisors, trustees, and charities--along with a recommendation that all interested parties contact Treasury to request it be withdrawn for further review and modification.
- In its July 15 EO Update electronic newsletter, the IRS has asked taxpayers to submit questions or comments regarding abusive practices involving charitable donations of conservation easements. More than 240 easement donors are currently under examination by the IRS.

Brian reported that behind the scenes Sen. Santorum’s staff is working to bring together the “carrot” and the “stick” elements of the CARE Act and the various “reform” bills and intend to introduce comprehensive legislation in the fall.

### PANEL ON NONPROFIT SECTOR REPORT

Brian reported that the final report is now available, and that nonprofit organizations can order up to five reports. It can be downloaded at <http://www.nonprofitpanel.org/final>.

### NEW TASK FORCE BROCHURE

Amy distributed a print-out of the draft design. **It was agreed that Amy would e-mail both the pdf (for design) and the text in Word to all of the active members for feedback on content and design. All feedback should come back to Amy, who will work with Sid and Josh to finalize the brochure.** Ideally the brochure will be printed in time to distribute at the September 15<sup>th</sup> meeting. It needs to be available for the October MNA Conference. **Amy will contact Ralph** about the quantity printed last time, and investigate printers and prices. On the design, all agreed that there needs to be more color, and that the brochure should more closely resemble the web site design. **Amy will work with Galen** on that, including obtaining the TF “logo” and other images from the web site.

### WEBSITE UPDATE

In Galen’s absence, **Sue put in a plug for all members to look at the website regularly** (<http://www.endowmontana.org>) and to provide any update information to Galen.

### MNA 4<sup>TH</sup> ANNUAL CONFERENCE

Sue had the members present help her fill out a questionnaire to all conference sponsors, asking which of the \$500 “break sponsor” benefits we want. Someone asked about the table at the event; **Sue will think about presentation materials.** It was suggested that there be a very basic slide show running behind the table. **Amy reminded John Scibek that Jim Soft suggested at the last meeting that he and John come up with a brief power point presentation;** perhaps that could be used at the table.

### NEXT MEETING

It was agreed that there would be no August meeting; the next meeting will be on **September 15**, from 10 a.m. until 2 p.m. The meeting location will be announced later.

Meeting adjourned at 1:30 p.m.

## LETTER FROM MONTANA

### Here's to Bigger Endowments in the Big Sky State

Montanans are on a roll: first they built up one, then dozens of community foundations. Then they passed one of the first state tax incentives for donations to charitable endowments.

BY SIDNEY ARMSTRONG

A decade ago Montana seemed the most unlikely place in the world to create a community foundation. We were struggling through a depression in the agriculture and natural resources industries. Industries were leaving the state, and so much of the population left that we lost one of our Congressional seats. Montana was getting a reputation as a home for cowboys, kooks and not much else.

Now that we're approaching the tenth anniversary of the Montana Community Foundation (MCF), we're constantly amazed at how far we have come. Early on we received administrative support and challenge grants from private foundations outside the state—Charles Stewart Mott, Northwest Area and McKnight—without which we would've gone nowhere. We started up with \$300,000 in a handful of endowment funds, and grew it to more than \$17 million in 300 separate funds. This year we expect to grow to \$20 million.

Even though many people predicted that our effort to build a new foundation here would fail, we did it anyway. It took the creativity, imagination and vision of many Montanans who were determined to break an ingrained pattern of fatalistic thinking. It also took the strong and visible leadership of our governor, who truly understands the

value of endowed philanthropy and has been willing to go on the stump around the state to speak about it.

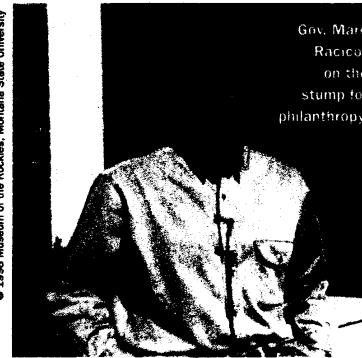
There's something else we're proud of, and it is bigger than just the growth of the MCF. At the same time we've been growing, we've tried hard to help get the ball rolling on promoting all kinds of endowments—nonprofit endowments, private foundation endowments, you name it—across the state. In 1995, MCF launched a program of outreach and education—called the Montana Philanthropy Initiative. In April 1997, our state legislature passed a tax credit that gives incentives for contributions to endowments to be used for charitable purposes. Montana's is similar to, but not exactly the same as Michigan's tax credit; both states are pioneers in providing incentives to donors who give to endowments.

#### How It All Began

My great grandparents came to Montana in a covered wagon in the early 1860s. A young Irish couple with a small baby, they were seeking gold. Although they didn't find a fortune, they did end up homesteading on the banks of the Missouri, near Helena.

That's why Montana has a special meaning to me. I began working with the Montana Community Foundation in

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December, 1988, just after it became operational; two years later I became its executive director. Like most of Montana's citizens, I had never heard of a community foundation before. And like most Montanans, I thought you had to be either rich or dead—or both—to participate in a foundation or an endowment. MCF's goals of democratizing philanthropy and building for the future had such great appeal. They also seemed impossible.

Why impossible? Let me count the ways:

- The largest city in Montana has fewer than 100,000 people. In fact, there are many counties in which cattle far outnumber people.

**Like most of Montana's citizens, I had never heard of a community foundation before. And like most Montanans, I thought you had to be either rich or dead—or both—to participate in a foundation or an endowment.**

- The prerequisite concentration of wealth and existing social networks found in highly urbanized states simply don't exist in Montana.

- There are few corporate headquarters here and only a handful of family foundations of any significant size.

- Of the state's wealthiest citizens, most are part-time residents with only marginal ties here.

- And, even though Montanans are generous, our state has a weak tradition of endowed philanthropy, especially in our more rural areas, where times have been especially hard.

One door opened when, in 1994, the Ford Foundation invited MCF to participate in a new experiment, called the Rural Development and Community Foundation Initiative. Its main emphasis was on local economic development to help rural families. MCF received grant money, technical assistance from the Aspen Institute, and a chance to network with other participating community foundations. Plus, we had to raise \$1 million in permanent endowment funds to continue the effort.

So, getting to work on that challenge, through a competitive process we chose three rural communities—called “Beacon Communities”—to work with us. In turn, we challenged each to raise money for their own local community foundation, each to be separate entities but affiliated with MCF. Using home-grown efforts such as “radiothons,” “paperthons” and Indian art auctions, they provoked an astounding response. With very small populations—the three Beacons combined have only about 11,000 people—they've collectively raised close to half a million dollars for their own permanent local endowments. (This program has stimulated the cre-

ation of no less than 41 new local endowments. What they've each been able to do has been truly inspiring).

As we worked at raising the challenge match, it was brought home to us that Montanans needed a way to understand endowed philanthropy and what it could mean to them individually and as communities. Lacking the advantage of a state like Indiana, where the Lilly Foundation's GIFT initiative has boosted the growth of community foundations, we decided we needed to invent our own giving incentives.

This experience led us to Gov. Marc Racicot, and he readily agreed to help. The first thing he did was gather more than 50 people from various leadership positions in business, government and the nonprofit world. This group included representatives from several foundations, including Mott and Northwest Area. After extensive background materials were prepared and sent to invitees, the group met at the governor's residence for a giant brainstorming session, called “A Conversation about Endowed Philanthropy.”

#### **The Montana-American Character**

Introducing the “Conversation,” Gov. Racicot said to the assembled group: “I have a friend who says, ‘Montana is what America was.’ We have somehow managed to preserve here a very special society—hardworking, safe, civil.”

Racicot said he understood how important it is to Montanans to keep faith in their ability to control their own destiny. He told his own family's pioneer story, about a grandfather who came to work as a cook in a logging camp. Said Racicot, “The eventual arrival of large trucks and log-hauling roads eliminated the need for logging

camps and therefore for logging camp cooks. That kind of change, repeated countless times in any number of economic sectors all across Montana, not only put many thousands of men and women out of work over decades, it also fed a kind of fatalism. Many Montanans grew up expecting the worst, feeling that we were pretty much alone up here in the attic of the lower 48 states, and that as surely as our winters are long and hard, tough times were just around the corner.”

As a Montanan, I understood this phenomenon completely. If your job, your wages, your family's well-being always seem to be held hostage by decisions and prices in faraway places—no matter whether it is the world price of copper, lumber, silver, vermiculite, wheat, barley or cattle—many of us have felt we were not really in full control of our lives here.

The governor went on to make this one key point: The Racicot administration was spending “a good deal of time assuring Montanans that we need not always be the victims, always reacting to bad news; that we can seize control of our own economic destiny and shape our own future.”

#### **Carpe Endowment**

Montanans surely do not lack in community or charitable spirit. Our strong neighbor-helping-neighbor spirit may have been spawned by the harsh realities of settling and surviving on these vast spaces. What we've lacked are the philanthropic vessels in which to pour the existing desire to help.

Given this background, you can begin to see how perfectly the native Montanan outlook meshes with the imported concept of endowed philan-



KAREN MINOT

thropy. The governor said he wanted to wed this strong longing that Montanans have for controlling their own destinies to mechanisms of organized philanthropy, enabling people to make contributions when they can, and to take care of themselves whenever the economy takes one of its inevitable downturns.

Two things happened as a result of the governor's "Conversation." Eyes were opened to the possibility of boosting charitable giving in the state. And, the governor created a Task Force on Endowed Philanthropy, charged with examining the nitty gritty of what the state could and should do to promote endowed philanthropy.

The task force's first major effort was to help draft and lobby for a bill for a tax credit for direct gifts to endowments with community foundations. The bill was presented to the 1995 legislature. (Montana's citizen legislature meets every other year for 90 days). Although patterned after a similar tax credit in Michigan, and bolstered by the testimony and support of Russell Mawby of the W.K. Kellogg Foundation of Battle Creek and Dorothy Johnson of the Michigan Council on Foundations, the legislature

rejected the first bill for a variety of reasons. One of those reasons was that other types of nonprofits felt it gave community foundations an unfair advantage. Others felt the incentive would diminish giving to annual campaigns.

The task force's work continued. For two more years, MCF and partners from other Montana foundations, bankers and financial advisors revised and refined the legislation, and a successful bill was passed in the 1997 legislature. It provides for a state tax credit in the amount of 50 percent of qualifying contributions, up to a maximum \$10,000 credit per year for individuals for certain planned gifts to permanent charitable endowments (not limited to community foundation endowments) and a credit of equal size for gifts from an estate or corporation. The tax credit will be reviewed for renewal or sunset in 2001.

After the legislation passed, Gov. Racicot helped get the word out by encouraging donors to take advantage of the credit by year's end in a televised public service announcement. Although the tax credit was only nine months old when 1997 ended, we saw a significant

increase in giving to permanent endowments across the state in that short time.

Meanwhile, with Gov. Racicot serving as the keynote speaker, a number of local community-based Conversations were held, seminars for legal and financial seminars were co-sponsored with other foundations, and efforts continued in the Montana Philanthropy Initiative. Gov. Racicot appointed a

Business Council to help raise money for our challenge from the Ford Foundation. A number of businesses contributed generously to the statewide Montana Renaissance Fund, but also wanted to seed local community foundations in the areas where they did business. Thus, a new series of local community foundations were established. Most of them—41 to be exact—are affiliated with the Montana Community Foundation, there are several more that are independent.

All told, it's been a great ten years for community foundations here. And likewise for communities here in general: Our economy is making a comeback, and the population, which dipped below 800,000 in 1990, climbed back up to 879,000 by 1996.

Many of our endowment-building efforts are in the formative states, but already we feel like we can see tangible benefits to Montana. And that is our real goal—not simply to grow the Montana Community Foundation, but to strengthen all foundations, nonprofits and communities in the state. ■

*Sidney Armstrong is executive director of the Montana Community Foundation, which is based in Helena.*

**LETTER FROM MONTANA**  
**UPDATE JUNE 2003**

(Sidney Armstrong, former Executive Director, Montana Community Foundation)

In 1998, Foundation News and Commentary published a "**Letter from Montana**," about the difficulties of building endowment in Montana, and how the Montana Community Foundation gained the strong support of Governor Marc Racicot, resulting in the creation of a Governor's Task Force on Endowed Philanthropy and the passage of a unique tax credit in 1997. No one had thought that we could build endowment in a place as rural as our state, but Montanans have proved the skeptics wrong.

I am proud to tell you that since 1998 our Montana successes in building endowment, along with community capacity, especially in rural areas, have greatly surpassed all expectations. I can easily tell you the numbers and dollars; what is much more difficult is convey the wonderful spirit, generosity and community building which has occurred. There are enough stories of local ingenuity and innovation, of outreach to former Montanans and the inclusion of new and part-time Montanans to fill a book, and I hope it is a book that will someday be written.

**Shaky economy, strong social capital.** In 2003, there are few improvements in our economic outlook; we lag behind the rest of the nation in annual wages, per capita income, foundation assets and major corporations, while state government struggles with budget deficits and cuts in services. Of the two major state corporations, one has split up and sold off the company, while the other has ceased all charitable giving. Still there are bright spots, and the national Social Capital Benchmark Survey in 2001 indicated what we had known all along: Montanans are good neighbors, involved with their schools, their communities and their government. They are quick to lend a helping hand to those in need, but have lacked more organized philanthropic institutions and ways of giving. Government, business and the philanthropic community work together to improve our economic and philanthropic situation.

**Giving for Endowment Booms.** However, while the economy is not booming, charitable giving to boost endowed philanthropy has seen a tremendous increase. **In the first five years of the tax credit, because of the tax credit and related educational and out-reach programs, over \$74 million has been added to the endowments of the state's non-profits and local community funds.** While this may seem very small potatoes for large urban foundations and communities; still for a rural state with just over 900,000 residents, it is quite significant.

**Governor's Support.** Governor Racicot finished his last term in 2001, and his Lt. Governor, Judy Martz, Montana's first woman governor was elected. Knowing of the good work of the Governor's Task Force, and with a firm belief in the power of partnerships, Governor Martz continued the Task Force, but with an expanded focus. The Governor's Task Force on Endowments and Philanthropy seeks to expand all charitable giving in Montana.

**Tax credit extended in 2001.** The tax credit was due to sunset after five years. Governor Martz supported its re-enactment in the 2001 legislative session, although with a reduced incentive, because of a tight state budget. With two part-time lobbyists and a tremendous grassroots lobbying effort, the credit was re-enacted for another five years.

**Special Session further reduces credit in 2002, Regular session restores it.** A special session called in August, 2002, to erase an unanticipated \$57 million budget deficit further reduced the tax credit, but did not eliminate it. The 2003 Legislature restored the credit to its 2001 level, even with the struggles with the state's budget.

**New Conversation.** Carrying on the legacy of Governor Racicot, Governor Martz hosted a statewide Conversation of Giving and Grantmaking in late 2001, charging participants – business, government and non-profit leaders – to create new ways or build on current successes to build all philanthropy in the state.

**Building Community and Organizational Capacity.** As MCF participated in bringing organizations and local citizens together to build these endowments, we realized that unlike traditional urban endowment building, this truly was a campaign which involved a myriad of organizations and residents, old and young, rich and poor, and that it proved to an important tool for building organizations, communities, and social capital.

**Grants from the Montana Renaissance Fund.** These grants support community development projects, with a requirement for matching local community foundation endowments, carrying on the initiative begun with MCF by the Ford Foundation. MCF created additional grants to assist in these efforts, along with conferences, workshops and training materials, specifically developed for rural areas with few non-profits, no paid staff and little tangible wealth. *Because of financial constraints at MCF, these efforts have not been in operation since early 2002.*

**Rural Philanthropy Grows.** While only about half of MCF's local community foundation affiliates are active (some were seeded without community participation), endowment funds, local projects and increased community involvement continue to grow. Six community foundation affiliates in rural areas, where there is almost no philanthropic infrastructure, have become 501(c)(3)s, filling this gap.

**Native American Endowment.** Success has created a synergy of its own; our partners the Blackfeet Community Foundation, one of our initial Beacon Communities, has built an endowment now over \$300,000, through a Harvest Moon Ball and Art Auction, launched a successful recycling and town beautification project, established a mini-bank for middle school students, which is a model throughout the country, garnered support from out of state foundations for a private language and culture school, a revolving loan fund for economic development projects and another for Indian artists, established the first Land Trust on a reservation – and much more. All this on an isolated reservation with unemployment as high as 70% and resulting hardships and poverty. But the Blackfeet are proud people, building their own resources and creating their own destiny. And that's what we hope for all our communities – and for our state itself.