

TALENT RETENTION PROGRAM MANUAL

INTRODUCTION

Many communities are struggling to retain local college graduates, especially in the areas of science, technology, engineering, arts and math (STEAM). How do we encourage them to return to their communities and fill available positions? In early 2014, the Council of Michigan Foundations (CMF) was approached by the Community Foundation of St. Clair County regarding the concept of offering financial incentives for local college STEAM graduates to return to their local communities for work. This type of program would provide competitive reverse scholarships, helping recent college graduates pay off their student loan debt if they return to their local communities for work.

With the support of the following organizations, CMF hired the law firm Clark Hill PLC to explore this concept further and provide some guidance on whether this approach could meet the IRS definition of being a charitable activity for foundations to pursue.

The findings were eye-opening for the entire field.



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INITIAL CONCEPT

A student loan repayment program would be created by the community foundation where a local unit of government creates a program to attract young professionals in science, technology, engineering, arts or math (STEAM) to work in the community. Under the proposal, if a recent graduate agreed to work for an employer in a particular community, the community foundation would agree to repay portions of the individual's student loans over a multi-year period, provided the student completed the required period of employment.

KEY CONCEPTS

- Community must be suffering from financial distress
- Competitive scholarship program providing “back-end” financial support for recent graduates
- Applicants must be willing to return to their community to be eligible.
- Applicants must be graduates of a STEAM program or degree
- Scholarships help pay off student debt
- Recipient must live and work in the community suffering from financial distress

BENEFITS

- Slowing down or reversing the “talent drain”
- Bringing skilled, educated and trained professionals back to communities in need
- Increasing entrepreneurship
- Filling skilled and educated job openings
- Giving family owned businesses hope that a family member will take over their business
- Downtown revitalization and/or economic development

SIMILAR PROGRAMS

The medical and mental health professions have developed programs to fill openings for underserved populations, along with teacher programs for urban or rural areas experiencing teacher shortages. Because healthcare and education are “per se” charitable areas designated by the IRS, attracting individuals to fill those areas would fall within the charitable purpose for foundations.

ELEMENTS THAT MUST BE SATISFIED FOR THE PROGRAM TO BE CONSIDERED CHARITABLE

There is a high interest around the country from community foundations wanting to retain local talent, therefore it's critical that a program such as the one outlined in this manual meet the charitable purpose test. Failing to do so could subject the sponsoring community foundation (or other charity) to penalties for private inurement. The concept of private inurement prohibits using charitable assets to inappropriately benefit private individuals or businesses. In addition, the finding of a charitable purpose will require an analysis on a case-by-case basis.

INITIAL CONCEPT (CONT.)

DOES THE PARTICULAR TALENT RETENTION PROGRAM...

- Target a community that is suffering from financial distress?
- Lessen a unit of government's burden?

DOES THE EMPLOYER...

- Provide a community benefit by having this person employed there?
- Improve the community? For example, employing disadvantaged individuals who would not otherwise be employed?

KEY ELEMENTS FOR THE CHARITABLE PURPOSE TEST

- Promoting economic development in a financially distressed community
- A local unit of government acknowledges that the program helps to lessen a burden of government
- Graduate must live and work in the financially distressed area

Programs such as the one outlined in this manual should not be undertaken without a careful legal analysis of how it will meet the charitable purpose test by the IRS.



ESTABLISHING A TALENT RETENTION PROGRAM THROUGH REVERSE SCHOLARSHIPS

RANDY MAIERS

*President,
Community Foundation of St. Clair County*

WHAT LED YOU TO DO THIS?

A series of conversations with donors about what issues were really important to them. Their answers focused around economic prosperity and the need for young college graduates to move back home and contribute to the prosperity in Michigan's Thumb region. Then the conversations moved to the question of what role philanthropy could play to entice college graduates to move back home.

WHAT WERE THE KEY LEARNINGS FOR YOUR FOUNDATION?

That traditional front-end scholarships have many flaws, risks and unknowns. In some regards, scholarships are a like a "sacred cow," yet we can't be afraid to accept criticism of our programs and be open to new ideas and new approaches.

WHAT DO YOU BELIEVE SUCCESS WILL LOOK LIKE FOR THIS PROGRAM?

Success will come when these types of "back-end" scholarships are as widely used and as common as traditional front-end scholarships.

WHAT WOULD YOU TELL OTHER FOUNDATIONS INTERESTED IN IMPLEMENTING A TALENT RETENTION PROGRAM?

Talk to your constituents and donors first, and take your time. Ask honest and open-ended questions to help your foundation learn what is really important to your donors, and to your future donors.



ESTABLISHING A TALENT RETENTION PROGRAM THROUGH REVERSE SCHOLARSHIPS

MACKENZIE PRICE

*Executive Director,
Huron County Community Foundation*

WHAT LED YOU TO DO THIS?

The reverse scholarship concept came from our community stakeholders. During our strategic priorities process, we asked donors and key community players what was important to them, as individuals, but also what was important to the future of Huron County. One answer that echoed throughout each town, every sector of business, and in our families was the desire to have our young people return to Huron County. After one conversation with a prominent farmer in the area, who encouraged us to rethink our scholarship model to encourage people to come back instead of leave, we knew we had to pursue reverse scholarships.

WHAT WERE THE KEY LEARNINGS FOR YOUR FOUNDATION?

Conversations are key. Whatever direction the community foundation may be going, it has to be supported by the community they serve. Listening to the stakeholders during the strategic priorities, analyzing the data of surveys, figuring out what the community sees as the biggest issue, and then working with key players to address that issue is the model that we will use from here on out because of our success. Also, good things take time. The conversation surrounding reverse scholarships started in early 2014. It took more than two years for the idea to come to fruition.

WHAT DO YOU BELIEVE SUCCESS WILL LOOK LIKE FOR THIS PROGRAM?

Our goal as we started the reverse scholarship program was to minimize or help reverse the talent drain our region was experiencing. That is a lofty goal, but that was the original vision. Tangibly, success in Huron County will be capitalizing on the 60 percent of our high school seniors who pursue some type of post-secondary training. That's an incredible number, but the number of Huron County residents with a post-secondary degree hovers around 23 percent. Bridging the disparity between those two numbers would be a way to measure success. Anecdotal success would include a growth of our Young Professionals Network, a heightened awareness of STEAM education and career opportunities, and more civic engagement in our area by bringing people back who already have an appreciation for their community.

WHAT WOULD YOU TELL OTHER FOUNDATIONS INTERESTED IN IMPLEMENTING A TALENT RETENTION PROGRAM?

Listen to your community stakeholders. Not every community may be interested or a good fit for a reverse scholarship program, and that's okay! Start the talent retention conversation in your community. This is just one way to address the issue that's impacting so many of our counties in Michigan. If reverse scholarships seem to be a good fit for your community, hopefully this manual will help guide you through the process.

LEGAL CONSIDERATIONS AND STRUCTURE

KEY ELEMENTS FOR THE PROGRAM TO BE CONSIDERED CHARITABLE:

- The program is promoting economic development in a financially distressed community
- The program lessens the burden of government, meaning it takes on some governmental function that's designed to benefit the general public

A program to attract STEAM graduates to the local community falls under what would be considered economic development activities, which can lead to special scrutiny by the IRS when conducted by 501 (c) (3) organizations, since they raise private inurement and private benefits concerns. Private individuals or businesses may benefit only incidentally. If more than an insubstantial part of a charity's activities is for private benefit, tax exempt status will be jeopardized.

Economic development activities can be considered charitable where the program has the effect of relieving the poor, distressed or underprivileged, or combatting community deterioration. Economic development activities can also serve the charitable purposes of lessening neighborhood tensions, eliminating prejudice and discrimination, defending human and civil rights or combatting juvenile delinquency.

- Economic development is not "per se" charitable

A program of this kind is operated under the protection of a local unit of government or it's sanctioned by a local unit of government, and the community is suffering from financial distress or disinvestment, allowing the 501 (c) (3) organization to support the program, because it is lessening a burden of government. The activities must be activities that the government considers to be its burden and the activities must actually lessen the government burden.

- Attracting college graduates to a particular community in itself is not charitable

CHARITABLE PURPOSE TEST

PROMOTING ECONOMIC DEVELOPMENT IN A FINANCIALLY DISTRESSED COMMUNITY

There is no bright line test for this requirement, but the more indicators of distress that can be shown for a community, the stronger the support for classifying the area in question as financially distressed. Hiring legal counsel to gather the data to support this finding should be considered.

EXAMPLES OF DATA SOURCES

- Compare U.S. Census Bureau statistics for your area against national or regional averages when it comes to unemployment rates, poverty rates, vacant housing, lack of housing and income levels.
- United Way's Asset Limited Income Constrained Employed (ALICE) report shows those in local communities who are working, but are still struggling to make ends meet.
- The Michigan State Housing Development Authority has criteria for a community to be considered distressed. [Click here](#) to learn more.

LEGAL CONSIDERATIONS AND STRUCTURE (CONT.)

A LOCAL UNIT OF GOVERNMENT ACKNOWLEDGES THAT THE PROGRAM HELPS TO LESSEN A BURDEN OF GOVERNMENT

- The community foundation should identify the broad charitable class that will benefit from the activity in some direct way. This may be the Standard Metropolitan Statistical Area (SMSA) suffering financial distress or disinvestment.
- Legislation or local ordinances confirm that the government is interested and active in meeting the particular need to be addressed.
- A local unit of government has adopted an economic strategic plan or strategic priorities that address the lack of college graduates and STEAM professionals living and working in the region.
- The relationship between the community foundation and the government agency should be documented through a grant agreement, a memorandum of understanding, or other contract.
- One or more public officials should serve as a committee member, or in another position of authority with the community foundation relative to the program.
- Correspondence from government officials confirming their support for the program.
- Business owners who may benefit from the program should have no or only limited involvement in management of the charitable program.
- The financial impact of the program should be documented; for example, the economic benefits to the community or savings in government spending.

Gifts and grants to a talent retention fund at a community foundation will be treated like a charitable contribution by the individual, just like any other contribution to a community foundation.

TAX TREATMENT FOR THE INDIVIDUAL RECIPIENT

A grant such as this to an individual will be taxable. Although “qualified scholarships” are excludable from gross income under Section 117 (a) of the Internal Revenue Code, a reverse scholarship grant would not constitute a qualified scholarship since it is not provided to a current candidate for a degree, but rather, serves as a repayment of a loan. Additionally, grants are not excludable if the grantor expects the recipient to render substantial services, such as agreeing to work in a particular community for a term of years. Since the grant would be taxable income to the recipient, the foundation must report the income on their IRS 1099 form.

PROGRAM STRUCTURE

PROGRAM OPTIONS TO CONSIDER

- How do you define a “recent college graduate?”
- Process for selecting recipients must follow IRS scholarship procedures
- What is the minimum period of time they need to live in the local community?
- What happens if the recipient moves before the required minimum time period is met?
- What dollar amount is sufficient to encourage graduates to return to the community?
- Over what period of time should they receive payments?
- Should payments go directly to the student debt lending institution?
- If you provide funds in advance, consider what type of verification you should receive to make sure the funds were used properly (if payments aren’t sent directly to the lending institution).

OTHER ISSUES TO CONSIDER

- Local unit of government involvement
- Payment options
- Student loan payment support
- Direct support for relocation expenses
- Marketing the program to potential recipients
- Selection process
- Local business involvement

LOCAL UNIT OF GOVERNMENT INVOLVEMENT

The local or regional unit of government often identifies and establishes that there is in fact a problem; such as a lack of college educated workers, a lack of entrepreneurs, disinvestment in the downtown, and/or population loss, that can be addressed through a charitable activity. The local unit of government such as the city council or economic development corporation has provided official support for the program and acknowledged the program is lessening the burden of government. It is important to note that not all economic development corporations are a unit of government; some are separate free standing entities. If that’s the case, a local unit of government will need to lend its official support. There should be an official agreement between the community foundation and local unit of government documenting the relationship and issues to be addressed. If possible, any savings to the government should be documented to show the financial impact of the program.

PAYMENT OPTIONS

Payment options should run over a series of years to encourage the recipient to remain in the community for a sufficient period of time to benefit the local community. In order for the program to be successful, you will need to consider what amount is sufficient to encourage local graduates to return to their community. Also, consider whether payments would be made in advance or given to the recipient after returning to the community and then verify the funds were used as required.

PROGRAM STRUCTURE (CONT.)

STUDENT LOAN PAYMENT SUPPORT

With student loans becoming a bigger burden for college graduates, structuring a talent retention program to reduce that debt appears to be a program many donors are interested in supporting. Payments could be made directly to the lending institution or made to the graduate using a verification process noting the funds are going toward the student debt.

For the latter option, a receipt could be provided to the community foundation for reimbursement.

DIRECT SUPPORT FOR RELOCATION EXPENSES

The community foundation may allow the individual to use the funds for relocation expenses as long as the expenses are not reimbursable by the employer, otherwise, the support would relieve a burden of the employer and therefore would not be a charitable activity.

MARKETING THE PROGRAM TO POTENTIAL RECIPIENTS

Most students are familiar with the traditional front-end scholarship programs and how to apply for those, but a reverse scholarship program available to graduates is new territory. To promote the program to potential recipients, you may want to consider working with colleges and universities to promote to current students and young alumni, along with spreading the word to high school seniors during their scholarship process. It is a good opportunity to market to STEAM employers, possibly advertising that future employees would be eligible for financial help with their student loans if they return home. Finally, take it to the families in your community to educate them about encouraging their adult children to move back to their hometown to help alleviate their student loan debt and invest in the future of their community.

SELECTION PROCESS

As with any competitive scholarship program, a selection committee will be necessary to choose recipients. The most conservative approach would be that any business that could benefit from the program would not be on the selection committee. Individuals must be selected based on objective and nondiscriminatory criteria.

LOCAL BUSINESS INVOLVEMENT

Local businesses that benefit directly from this program should have limited involvement in the structure, selection process and other aspects of the program. If only one business participates in the program by hiring STEAM employees, a careful analysis of whether this really satisfies a charitable purpose is necessary. Businesses may not earmark grants to the fund. A grant is earmarked if the grant is made under an oral or written agreement that the grant will be used by any named individual. Requiring the individual to work for the business making the contribution would be considered earmarking and therefore would not be allowed. A business contributing to the program may have employees participating in the program, but careful consideration needs to be taken to make sure the main purpose of the program is to benefit the community and not a particular business.

PROMOTING TO DONORS AND FUNDING OPTIONS

PROMOTING TO DONORS

A program that encourages local graduates to return to their community, or a community in need of specific talent, is appealing to many donors. Some donors are questioning the traditional scholarship format, while it supports local students attending a college or university; in many cases the recipients relocate out of the community or out of Michigan. Talent retention scholarships will pay recent college graduates to come back home instead of the traditional model that may steer them to relocate for a career.

Paying off student debt provides a greater certainty that the scholarship dollars are being invested wisely.

WHAT'S IMPORTANT TO DONORS?

- Slowing down the talent drain
- Bringing skilled, educated and trained professionals back to their communities to fill job openings
- Giving farmers and business owners hope that a family member will take over their business
- Increasing entrepreneurship
- Revitalizing the local economy with new talent and businesses

FUNDING OPTIONS

If you're considering a talent retention program, as with any type of fund, the donors and community foundation will need to consider whether they want to establish an endowed or non-endowed fund. Some would argue that having an endowed fund would be disingenuous if the rationale is that the program is designed to address an immediate need and those needs should be remedied sooner rather than later. You should also consider how soon you want the program up and running. Ask yourself, what is the capacity of donors to fund a program to encourage a sufficient number of graduates to return to the community? Consider that with an endowed fund, the typical payout is 5 percent per year. What is the annual amount needed to attract graduates back home and how large does the annual funding pool need to be to make an impact? Depending upon how soon you want the program up and running, an endowed fund may not provide the immediate benefit the community needs. Once you begin raising funds for the program, the foundation must share what the funding need will be to initiate the program and make a meaningful impact in the community.

Individual donors can give freely to a program such as the one outlined in this manual; if the fund is structured as a donor advised fund, the donor would be prevented from controlling the selection committee.

STEPS TO IMPLEMENTING A TALENT RETENTION PROGRAM

A talent retention program is a proactive approach to addressing community needs. If a foundation is not comfortable operating in a proactive manner, they should proceed slowly and seek feedback from their constituency base.

FIND OUT:

- What's really important to our community?
- What are our greatest challenges?
- If we could help our donors and constituents do anything to improve our region's prosperity, what would it be?
- For donors, ask if they would rather support a traditional front-end scholarship model or a reverse scholarship program.

THE CHECKLIST

- 1 Begin by having an open conversation with donors and key constituents about the flaws and perceived weaknesses of traditional front-end scholarships.
- 2 Possess a full understanding of the economic challenges of the community and local units of government, and the interest from donors to address those challenges.
- 3 Determine if the community will qualify as financially distressed.
- 4 Meet with local units of government to market how the foundation can lessen its burdens and how the parties can promote economic development in a financially distressed community.
- 5 Set up an advisory committee to develop the program's structure.
- 6 Develop an agreement and solidify support from a local unit of government.
- 7 Launch fundraising activities.
- 8 Market the program to employers, students, recent college graduates and the community.
- 9 Document the financial impact on the community and lessening the burden of government.

LEGAL DISCLAIMER SAMPLE DOCUMENTS

Following are documents that were used to establish talent retention scholarship programs in Huron and St. Clair counties, and may provide you with samples on how to establish the program in your community. These documents are instructional only and may not be relied upon for legal advice.

CLARK HILL: LETTER TO RANDY MAIERS

**RESOLUTION 15-60: COMMUNITY FOUNDATION OF
ST. CLAIR COUNTY REVERSE SCHOLARSHIP FUND**

**COMMUNITY FOUNDATION OF
ST. CLAIR COUNTY FUND AGREEMENT**

CLARK HILL: LETTER TO MACKENZIE PRICE

EDC BOARD OF DIRECTORS RESOLUTION

HURON COUNTY REVERSE SCHOLARSHIP FUND AGREEMENT

**CLARK HILL:
LETTER TO RANDY MAIERS**

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January 19, 2016

Randy Maiers
Community Foundation of St. Clair County
1411 Third Street - 4th Floor
Port Huron, MI 48060

Re: Talent Retention Scholarship Fund

Dear Randy:

You have asked whether the Community Foundation of St. Clair County (the "Foundation") may support and operate, in tandem with the County of St. Clair, a governmental body (the "County"), a talent retention scholarship program designed to attract professionals in science, technology, engineering, art, or math ("STEAM") professions to live and work in St. Clair County. The Foundation is a community foundation described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is organized to support the public welfare of the people of and around St. Clair County, Michigan.

The County's Metropolitan Planning Commission (the "Planning Commission") is charged pursuant to the Michigan Planning Enabling Act, Public Act 33 of 2008 of the Public Acts of Michigan, with the formation and adoption of a plan for the development of the county. The Planning Commission represents the county in joint planning activities with other jurisdictions. The Planning Commission drafted a master plan for the development of the county which was received, reviewed and adopted by the County's Board of Commissioners on July 15, 2009 ("Master Plan 2030").

According to Master Plan 2030, nearly 40% of St. Clair County residents have only a high school diploma and the plan acknowledges the importance of education and training, and attracting and keeping highly skilled workers in the county. Master Plan 2030 has among its goals, ensuring that a full range of opportunities for advanced education and training will be available and accessible, and the goal of retaining educated, skilled and entrepreneurial talent. According to a resolution of the County dated December 10, 2015, the County and local region have seen a decline in local residents with college degrees, leading to a loss of overall population in the County, and leading to increasing burdens on the local government to meet the needs of its residents. The County seeks to change this trend and improve the quality of life and economic condition of residents in St. Clair County by attracting professionals with STEAM degrees to work and live in St. Clair County, a financially distressed county.

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More specifically, the County and the Foundation entered into a Fund Agreement executed as of January 4, 2016 to operate the St. Clair County Reverse Scholarship Fund¹ (the "Fund"). The Fund will be used to make "scholarship"² grants to attract recent graduates with STEAM degrees and/or backgrounds in skilled trades to live and work in St. Clair County. According to the agreement, applicants must have outstanding student debt associated with the degree or certificate. Preference will be given to applicants who can demonstrate a previous residency of at least four years in St. Clair County, or who can demonstrate that his or her immediate family currently resides within St. Clair County. Applicants may not reside in St. Clair County at the time of the application. Applicants who are selected to receive a scholarship will have up to 120 days to demonstrate a written job commitment from an employer within the county, or demonstrate their own entrepreneurial ability to create their own company and/or be successfully self-employed within St. Clair County. A scholarship selection committee comprised of representatives of the Foundation, County commissioners, community stakeholders and the general business community will review applications for awards from the Fund. Each award will be in a minimum amount of \$10,000, payable over one or more years on a quarterly basis, as may be determined by the Foundation. Scholarships will be used by recipients to pay their outstanding student loans. Each applicant will forfeit rights to future quarterly payments in the event he or she terminates employment, or ceases to reside, in St. Clair County. The terms of the scholarship grant will be specified in an application to be acknowledged and submitted to the Foundation by the applicant and/or grant agreement or award letter between the Foundation and applicant.

Tax Exemption under Section 501(c)(3) of the Internal Revenue Code

To qualify as a program consistent with section 501(c)(3) of the Code, the program must serve a charitable purpose and must not be organized or operated for the benefit of private interests. Economic development activities can be considered charitable where the program has the effect of relieving the poor, distressed or underprivileged, or combatting community deterioration. Economic development activities can also serve the charitable purposes of lessening neighborhood tensions, eliminating prejudice and discrimination, defending human and civil rights or combatting juvenile delinquency. *See* Rev. Rul. 74-587, 1974-2 C.B. 162; IRC 501(c)(3).

Promoting economic development is given special scrutiny by the IRS. Although attracting STEAM graduates to a particular community without more would not qualify as a charitable activity, where the program is targeted at areas suffering from financial distress and the program is operated for the benefit of and in tandem with a local governmental unit, the activities will qualify under section 501(c)(3) of the Code as charitable if they are lessening the burdens of government.

¹ The Fund may also be referred to as a "Talent Retention Scholarship Fund", as encouraged by the Council of Michigan Foundations.

² The term "scholarship" is not synonymous with a "qualified scholarship" under Section 117 of the Code. Qualified scholarships are generally nontaxable to recipients.

The term “charitable” is used in section 501(c)(3) of the Code in its generally accepted legal sense, and includes lessening the burdens of government. Treas. Reg. § 1.501(c)(3)-1(d)(2). For an activity to lessen the burdens of government, there must be an objective manifestation that the government considers such an activity to be its burden. Rev. Rul. 85-2, 1985-1 C.B. 178. The fact that a government sometimes takes part in an activity will not be enough to meet the test, nor will mere expressions of support from officials. The organization must also actually lessen the burdens of government. *Id.* This is a facts and circumstances test, although a favorable working relationship between the government and the organization can be strong evidence of an actual lessening of a burden.

When it comes to determining whether a particular geographic area is suffering from financial or economic distress, there is no bright line test. In fact, there are various programs designed to benefit distressed areas which use different methodologies for classifying an area as distressed. In our experience, we have demonstrated to the IRS that an area is distressed by comparing U.S. Census Bureau statistics for the geographic location against national or regional average or median figures for key indicators of distress such as unemployment rates, poverty rates, vacant housing, lack of housing and income levels. In general, the more indicators of distress that can be shown for an area, the stronger the support for classifying the area in question as financially distressed.

By way of example, in Priv. Ltr. Rul. 200537038 (June 24, 2005)³, the IRS held that a Section 501(c)(3) organization’s participation in a public and privately financed real estate development project, which included leases to market-rate tenants, and investments in small, technology-based companies, furthered exempt purposes by lessening the burdens of government and providing economic development to an underprivileged local area. The organization constructed an innovation and incubator center funded through third party commercial lending and government grants with the intent to attract high technology companies to the state to create not only employment opportunities but also demand for the post-secondary high technology education needed to build a skilled workforce. According to the ruling, the region where the organization operated was plagued by poverty, poor education and low standards of living for more than a century. The IRS held that the organization’s activities were consistent with Section 501(c)(3). Since the organization worked closely with the state and its economic development authority, it lessened the burdens of government. The state had considered the development of its economy to be a crucial burden and the legislature had allocated money to the organization to advance the work. Further, through its activities, the IRS noted that the organization was and continued to be organized to improve the economic conditions in the state through the development of high technology industry, which was consistent with its original grant of exemption and Revenue Rulings 74-587 and 76-419, 1976-2 C.B. 146⁴.

³ Although private letter rulings are not precedential, they are helpful to understanding the position of the IRS.

⁴ This ruling held that a nonprofit organization that purchases blighted land in an economically depressed community, converts the land into an industrial park, and encourages industrial enterprises to locate new facilities in the park in order to provide employment opportunities for low income residents of the area, is operated exclusively for charitable purposes and qualifies for exemption under Section 501(c)(3) of the Code.

Since (i) data indicates that St. Clair County suffers from economic distress, (ii) the County has acknowledged its burden of improving the quality of life and economic conditions of St. Clair County residents, and (iii) operation of the Talent Retention Scholarship Fund will actually lessen the burdens of government, it is our opinion that the Foundation's program to attract STEAM graduates to St. Clair County to promote economic revitalization is consistent with Section 501(c)(3) of the Code.

St. Clair County should be considered a Distressed Area

First, the area to be targeted by the Fund, St. Clair County, should be considered distressed. The State of Michigan as a whole exhibits higher than national average levels of economic distress indicators. According to the 2009-2013 American Community Survey 5-Year Estimates, an ongoing statistical survey that samples small percentages of the population and which is conducted by the U.S. Census Bureau, Michigan faced lower than average levels of median household income and percentage of the population with a bachelor's degree or higher for individuals 25 years of age and older, and higher than average levels of persons living below poverty level, unemployment, and vacant housing units.

Distress Indicator	Michigan	National Average
Median Household Income	\$48,411	\$53,046
Persons living below poverty level	16.80%	15.40%
Unemployment Rate	12.70%	9.70%
Percentage of population with bachelor's degree or higher for individuals 25 years of age and older	25.90%	28.80%
Vacant Housing Units	15.6%	12.5%

Based upon data from the 2009-2013 American Community Survey 5-Year Estimates, St. Clair County, in most cases (excepting poverty level as a whole and vacant housing units), exhibited higher levels of economic distress indicators than the United States and the State of Michigan, as shown in the chart below.

Distress Indicator	St. Clair County	National Average
Median Household Income	\$48,066	\$53,046
Poverty Level	14.90%	15.40%
Unemployment Rate	14.70%	9.70%
Percentage of population with a bachelor's degree or higher	16.30%	28.80%
Vacant Housing Units	10.4%	12.5%

Another methodology is the ALICE Project which is a study of financial hardship among low-income populations in various states and communities. According to ALICE Project standards, 43% of the total population of St. Clair County is struggling to afford basic needs. The ALICE Project, which was conducted by the United Way in conjunction with Rutgers

University-Newark School of Public Affairs and Administration, suggests in the Alice Project Report⁵ four instruments that measure the size and condition of households struggling financially, introducing the term “ALICE” – Asset Limited, Income Constrained, Employed. The report includes findings on households that earn below the ALICE Threshold, a level based on the actual cost of basic household necessities in each county in Michigan. It outlines the role of ALICE households in the state economy, the public resources spent on households in crisis, and the implications of struggling households for the wider community. ALICE households are working households which hold jobs and provide services that are vital to the Michigan economy, however, the jobs do not pay enough to afford the basics of housing, child care, food, health care, and transportation.

According to the ALICE Project Report, Michigan has 605,210 households below the Federal Poverty Level (FPL) but also has 930,503 ALICE households which have income above the FPL but below the ALICE Threshold, for a total of 1.54 million households in Michigan struggling to support themselves. The report indicates that 15% of the St. Clair County population was at or below the FPL, with 28% still struggling below the ALICE Threshold. Only 57% of the population is identified as being above the ALICE threshold.

The ALICE Project Report also identified a number of major communities within St. Clair County that are suffering from economic distress:

	Poverty Rate	ALICE Threshold	Unemployment Rate
Port Huron Charter Township	22%	24%	18%
Port Huron City	25%	35%	19%
Yale City	22%	29%	16%
Memphis City	16%	28%	15%
Marine City	17%	28%	19%

The Michigan State Housing Development Authority (“MSHDA”) also has criteria for designating an area as a distressed area (see <http://michigan.gov/mshda/0,4641,7-141--181277--00.html>). According to MSHDA, “Eligible Distressed Areas” are those cities, villages and townships which exhibit higher than statewide average levels of economic distress. As of June 16, 2015, Marine City and Port Huron, both major cities in St. Clair County, are considered “Eligible Distressed Areas” by MSHDA.

The Talent Retention Scholarship Fund will Lessen the Burdens of Government

Second, to qualify as a charitable activity which lessens the burden of government, the activity must be one which the governmental unit considers to be its burden, and the activity must actually lessen such governmental burden. As the Foundation is carrying on economic development activities which have the goal of repopulating St. Clair County with job creators,

⁵ United Way ALICE Report – Michigan, Study of Financial Hardship (September 2014)

burdens which have been acknowledged by the County of St. Clair, the Foundation will be lessening the burdens of government in accordance with Section 501(c)(3) of the Code.

Here, the County has acknowledged its obligation and commitment to programs that seek to alleviate and prevent conditions of unemployment, combat the low percentage of residents with college degrees and, thereby, revitalize St. Clair County. The County has adopted Master Plan 2030 which seeks to retain educated, skilled and entrepreneurial talent. The County has also appointed representatives on SEMCOG's General Assembly and Executive Committee, both of which have taken action with respect to regional economic development strategies, including the Increasing Jobs and Prosperity in Southeast Michigan strategy which acknowledges the necessity of retaining and increasing talent in the region to counter significant job losses, an eroding tax base and reductions in government services.

Pursuant to the resolution of the County dated December 10, 2015, the County recognized, in conjunction with the Planning Commission, its obligation for coordinating and supervising economic development functions in St. Clair and authorized partnering with the Foundation to implement the Talent Retention Scholarship Fund to lessen the burdens of the County by improving income levels, decreasing unemployment rates, increasing household incomes and increasing the percentage of residents with college degrees living and working in financially distressed areas in St. Clair County. As described in the Fund Agreement, the scholarship selection committee will include representatives of the County (i.e., County commissioners) so the County will have a meaningful voice in operation of the program.

Operation of the Fund by the Foundation will lessen the burdens of the County⁶. The Foundation will administer the program to induce STEAM graduates and skilled workers to live and work in St. Clair County. It will raise funds from the public to support and grow the program beyond what the County could do within its own budget. By attracting a talented workforce which includes entrepreneurs, the Foundation will bring jobs and investment to the community, and repopulate the distressed community with individuals who are job creators. This will in turn promote the creation of jobs for the citizens of the county and promote the expansion of existing businesses and industries within the county and new businesses, goals of the County.

A study by the United States Department of Agriculture, "Factors Affecting Former Residents Returning to Rural Communities"⁷ acknowledged the critical role return migrants may play in their rural home communities by slowing population loss, generating jobs, and increasing human, social, and financial capital. According to the study, return migrants who return in their late twenties and thirties bring back much-needed human capital in the form of advanced education, job skills, and life experiences. Entrepreneurial activities and self-employment of

⁶ To the extent that the Fund pays student loans that are federally guaranteed student loans, the program may also lessen the burdens of the federal government provided that the federal government has acknowledged the loan repayment to be its burden, and operation of the Fund actually results in fewer loan defaults.

⁷ Cromartie, John, Christiane von Reichert, and Ryan Arthun. *Factors Affecting Former Residents' Returning to Rural Communities*, ERR-185, U.S. Department of Agriculture, Economic Research Service, May 2015.

many return migrants added to the employment base and expanded available services. According to the report, policies aimed at encouraging return migration may help with economic challenges that have increased in the aftermath of the Great Recession. The study states that reducing rural population loss and spurring economic development may depend less on retaining young adults after they graduate from high school and more on attracting them back later in life. According to the study, repopulating rural communities is an explicit aim of the current USDA Strategic Plan for 2010-2015.

Like the economic development program described in Priv. Ltr. Rul. 200537038, the Foundation's goal in operating the Fund is to stimulate the economy of an economically distressed community by attracting new residents and creating employment opportunities to better the region. Consistent with the USDA study referenced above, by recruiting STEAM graduates and entrepreneurs to return to a rural county such as St. Clair County, the county stands to be revitalized through the talent stream of the new workforce and new jobs and investment that will arise. The Foundation's operation of the Fund which is expected to attract STEAM graduates and skilled workers to St. Clair County is designed and intended to combat community deterioration and lessen the burdens of government. Accordingly, operation of the Fund as described above should be considered consistent with the Foundation's tax-exempt purposes under Section 501(c)(3) of the Code.

IRC 170(c) provides that donors may deduct contributions or gifts to or for the use of a corporation or foundation created or organized in the United States, organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private purpose and which is not disqualified for tax exemption under section 501(c)(3) by reason of attempting to influence legislation and which does not participate in or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office. Accordingly, absent unusual circumstances, contributions to the Foundation for the Fund should be deductible to the donor. Donors should consult with their own tax advisors regarding the deductibility of contributions.

A number of issues discussed herein, including matters on which we have expressed an opinion, have not been definitively resolved by statute, regulations, rulings or court decisions. While our opinions and views expressed herein are based upon our best and reasonable interpretations of existing sources of law, we cannot guarantee that such interpretations would be followed if they became the subject of judicial or administrative proceedings and we cannot guarantee that the matters will not be challenged. The opinions set forth herein are expressed solely for the benefit of the Foundation and no other party shall be entitled to rely upon such opinions without the express written consent of the undersigned.

Very truly yours,

CLARK HILL PLC


Duane L. Tarnacki

**RESOLUTION 15-60: COMMUNITY
FOUNDATION OF ST. CLAIR COUNTY
REVERSE SCHOLARSHIP FUND**

RESOLUTION 15-60

COMMUNITY FOUNDATION OF ST CLAIR COUNTY ST. CLAIR COUNTY REVERSE SCHOLARSHIP FUND

WHEREAS, the County of St. Clair and the local region have seen a decline in local residents with college degrees that would serve as a basis for improving the economic conditions and subsequent quality of life improvements for the County and region; and

WHEREAS, this has led to a loss of overall population in the county, leading to increasing burdens on local government to meet the needs of our residents; and

WHEREAS, the County of St. Clair, in conjunction with the St. Clair County Metropolitan Planning Commission, is responsible for coordinating and supervising economic development functions in St. Clair County; and

WHEREAS, the County's Metropolitan Planning Commission represents the county in joint planning activities with other jurisdictions; and

WHEREAS, the St. Clair County Metropolitan Planning Commission is charged pursuant to the Michigan Planning Enabling Act, Public Act 33 of 2008 of the Public Acts of Michigan, with the formation and adoption of a plan for the development of the county; and

WHEREAS, the Metropolitan Planning Commission drafted a master plan for the development of the county which was received, reviewed and adopted by the St. Clair County Board of Commissioners on July 15, 2009 ("Master Plan 2030"); and

WHEREAS, Master Plan 2030 states that nearly 40% of St. Clair County residents have only a high school diploma and acknowledges the importance of education and training, and attracting and keeping highly skilled workers in the county; and

WHEREAS, Master Plan 2030 has among its goals ensuring that a full range of opportunities for advanced education and training will be available and accessible, and retaining educated, skilled and entrepreneurial talent; and

WHEREAS, the County also has appointed representatives on SEMCOG's General Assembly and Executive Committee, both of which have taken action with respect to regional economic development strategies, including the Increasing Jobs and Prosperity in Southeast Michigan strategy which acknowledges the necessity of retaining and increasing talent in the region to counter significant job losses, an eroding tax base and reductions in government services; and

WHEREAS, the Community Foundation of St. Clair County in collaboration with other partners focused on increasing talent retention and regional prosperity, and combatting deteriorating and financially distressed communities, has created a new scholarship fund ("Fund"); and

WHEREAS, it is anticipated that this new Fund will lessen the burdens of government by preventing further erosion of the County's economic base by recruiting and retaining college educated employees for St. Clair County's workforce to live and work in the County; and

WHEREAS, through the Fund, the Community Foundation of St. Clair County seeks to lessen the burdens of county government, and improve the quality of life, and economic condition of residents in St. Clair County, Michigan which is consistent with the goals of Master Plan 2030 and related economic development strategies; and

WHEREAS, the Fund is a part of a broader regional effort with other community foundations and community partners to expand our talent retention efforts, stimulate greater investments in our communities and improve our economic outlook; and

WHEREAS, the intent of the Fund is to support the efforts of local partners to attract young professionals with degrees in science, technology, engineering, arts and math (STEAM) to work and live in our financially distressed county and communities; and

WHEREAS, relief of the poor and distressed or of the underprivileged; advancement of education or science; lessening the burdens of government or to combat community deterioration and juvenile delinquency are all included in the definition of the term "charitable" as defined by the Internal Revenue Code, Treas. Reg. subsection 1.501(c)(3)-1(d)(2).

NOW, THEREFORE, BE IT RESOLVED the County of St. Clair shall enter into a joint effort with the Community Foundation of St. Clair County to administer the "Reverse Scholarship" program which is designed to lessen the burdens of government by improving income levels, decreasing unemployment rates, increasing household incomes and increasing the percentage of residents with college degrees living and working in financially distressed areas in St. Clair County in accordance with the attached "FUND AGREEMENT".

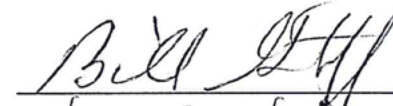
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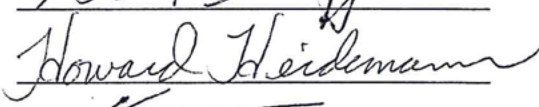
Reviewed and Approved as to Form by:

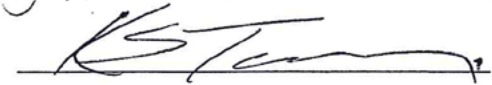
ST. CLAIR COUNTY
BOARD OF COMMISSIONERS

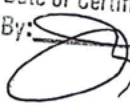


Gary A. Fletcher
County Corporation Counsel
1411 Third Street Suite F
Port Huron, MI 48060







I certify that I have compared the copy on which this certificate is affixed with the original instrument on file in this office and that said copy is a correct copy of the whole of such original.
Date Entered: 12-10-15
JAY M. DeBOYER, COUNTY CLERK OF ST. CLAIR COUNTY
Date of Certification 12-15-15
By:  DEPUTY CLERK

**COMMUNITY FOUNDATION
OF ST. CLAIR COUNTY
FUND AGREEMENT**

**COMMUNITY FOUNDATION OF ST. CLAIR COUNTY
FUND AGREEMENT
ST. CLAIR COUNTY REVERSE SCHOLARSHIP FUND**

The Community Foundation of St. Clair County (Foundation) in collaboration with other partners focused on increasing talent retention and regional prosperity, including St. Clair County Board of Commissioners, hereby creates and defines a new fund. This new fund will be subject to the following terms and conditions:

1. The name of the fund shall be the St. Clair County Reverse Scholarship Fund ("Fund") and will be so identified on the books and records of the Foundation.
2. This Fund is a part of a broader regional effort with other community foundations and community partners to expand our talent retention efforts, stimulate greater investments in our communities, and improve our economic outlook
3. The intent of the Fund is to support the County of St. Clair and the efforts of local community partners who desire to recruit and attract more residents with STEAM degrees and/or backgrounds in skilled trades to St. Clair County to live and work in financially distressed communities.
 - a. STEAM: Science, Technology, Engineering, Arts, Math
4. This competitive Fund is to be used for benefit of recent graduates subject to the following terms and conditions;
 - a. "Recent" means applicants must have received an undergraduate or graduate degree at either a four-year college or university, or a two-year community college degree, or received a certificate through a qualified and eligible skilled trades program within the last seven (7) years from the date of application.
 - b. Applicants must have outstanding student debt associated with their degree or certificate education.
 - c. Preference will be given to applicants who can demonstrate a previous residency of at least four years within St. Clair County, or, who can demonstrate that their immediate family currently resides within St. Clair County.
 - d. Applicants may not be already residing within St. Clair County at the time of their application.
 - e. Applicants must demonstrate a desire to move to St. Clair County, find or create employment, and make St. Clair County their permanent and primary residence.
 - f. Applicants who are selected to receive a scholarship have up to 120 days to demonstrate a written job commitment from an employer somewhere within

the county, or be able to demonstrate their own entrepreneurial ability to create their own company and/or be successfully self- employed within St. Clair County.

5. Applications will be reviewed by a Selection Committee ("Committee") comprised of representatives of the Foundation, County Commissioners, community stakeholders and the general business community. The Committee shall be elected annually by the Foundation with terms and conditions subject to general Foundation policies and procedures.
6. The Committee will make annual recommendations for awards to the Foundation on disbursements from the Fund. Recommendations of the Committee will be advisory only and the ultimate responsibility for the determination will remain with the Foundation. The Committee will hold meetings and make recommendations at dates, times and locations as they deem appropriate.
7. All award recommendations from the Committee must be received by the Foundation in writing, accompanied by approved meeting minutes and completed conflict of interest forms for each member of the Committee.
8. Unless changed by a vote of the Foundation, each award will be a minimum of \$10,000 in total and payable over one or more years on a quarterly basis as may be determined from time-to-time by the Foundation. In the event that the individual ceases to be employed or live in St. Clair County, he or she will forfeit all rights to future payments.
9. The Fund may include any property and/or gifts which hereafter may be transferred to the Foundation by donors or any other source for inclusion in the Fund and accepted by the Foundation. Unless specifically otherwise provided in an agreement governing additional contributions to the Fund, any property added to the Fund shall be subject to all of the terms and conditions of this Fund Agreement.
10. The Foundation shall have full legal and equitable title to the property held in the Fund, subject only to the terms of this Fund Agreement, and shall control the income and net appreciation derived from the Fund. The Fund shall not be considered to be a separate trust and the Foundation shall not be considered to hold the Fund as a trustee. No specific individual or organization other than the Foundation shall be considered to have a beneficial interest in any property in the Fund.
11. The Fund's net income (which may include realized and unrealized appreciation), as calculated by the Foundation's Spending Policy which may from time to time be amended, shall be distributed via scholarships as outlined above.
12. The principal in the Fund shall be considered non-endowed.
13. The Foundation may commingle the property held in the Fund with property of other component funds held by the Foundation, provided however, the property held in

the Fund will be clearly identified in the books and records of the Foundation and distributions from the Fund will be clearly identified as such to the grantees.


14. It is understood and agreed all assets held in the Fund will be subject to the Articles of Incorporation and Bylaws of the Foundation which may be amended from time to time. The Articles and Bylaws of the Foundation include the Variance Power for the governing Board to modify, without prior approval or subsequent confirmation of any court, any restrictions or conditions on the distribution of funds, including any provisions for distributions to specific organizations, if, in its sole judgment, those restrictions become, either wholly or in part, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Foundation.
15. The Fund will share a fair portion of the total administrative and investment management costs of the Foundation. The administrative cost charged against the Fund will at all times be reasonable, and will be consistent with the Foundation's current fee schedule (which may from time to time be amended) applicable to funds of this type. These fees may be charged against income or principal of the Fund at the discretion of the Foundation.

Signed and approved by



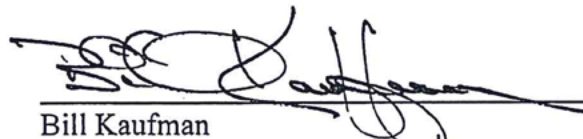
Randy Maiers
President

Date: 12-21-15



Donna Niester
Board Chair

Date: 1/4/16



Bill Kaufman
St. Clair County Administrator/Controller

Date: 12/11/15



Jeff Bohm
St. Clair County Chair

Date: 12/10/15

**CLARK HILL:
LETTER TO MACKENZIE PRICE**

CLARK HILL

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July 30, 2015

Mackenzie Price
Huron County Community Foundation
P.O. Box 56
Bad Axe, MI 48413

Re: Talent Retention Scholarship Fund

Dear Mackenzie:

You have asked whether the Huron County Community Foundation (the "Foundation") may support and operate, in tandem with the Huron County Economic Development Corporation ("Huron EDC") a talent retention scholarship program designed to attract professionals in science, technology, engineering, art, or math ("STEAM") professions to live and work in Huron County. The Foundation is a community foundation described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is organized to support the public welfare of the people of and around Huron County, Michigan.

The Huron EDC was created pursuant to the Michigan Economic Development Corporations Act, MCL § 125.1601 *et seq.*, for the purpose of developing programs to alleviate and prevent conditions of unemployment because the legislature found that it was necessary to assist and retain local industrial and commercial enterprises. According to a resolution of the Huron EDC dated June 2, 2015, the Huron County region has seen a decline in local residents with college degrees which has led to a loss of overall population in the county, leading to increasing burdens on the local governments to meet the needs of residents. Huron EDC seeks to change this trend and improve the quality of life and economic condition of residents in Huron County by attracting professionals with STEAM degrees to work and live in Huron County, a financially distressed county.

More specifically, Huron EDC and the Foundation entered into a Fund Agreement dated June 18, 2015 to operate the Huron County Reverse Scholarship Fund¹ (the "Fund"). The Fund will be used to make "scholarship"² grants to attract recent graduates with STEAM degrees and/or backgrounds in skilled trades to live and work in Huron County. According to the agreement, applicants must have outstanding student debt associated with the degree or certificate. Preference will be given to applicants who can demonstrate a previous residency of at least four years in Huron County, or who can demonstrate that his or her immediate family

¹ The Fund may also be referred to as a "Talent Retention Scholarship Fund", as suggested by the Council of Michigan Foundations.

² The term "scholarship" is not synonymous with a "qualified scholarship" under Section 117 of the Code. Qualified scholarships are generally nontaxable to recipients.

currently resides within Huron County. Applicants may not reside in Huron County at the time of the application. Applicants who are selected to receive a scholarship will have up to 120 days to demonstrate a written job commitment from an employer within the county, or demonstrate their own entrepreneurial ability to create their own company and/or be successfully self-employed within Huron County. A scholarship selection committee comprised of representatives of the Foundation, Huron EDC, community stakeholders and the general business community will review applications for awards from the Fund. Each award will be in a minimum amount of \$10,000, payable over one or more years on a quarterly basis, as may be determined by the Foundation. Proceeds from the Fund will be used by recipients to pay their outstanding student loans and possibly relocation expenses so long as the company for which the applicant will be employed does not have a policy of paying such expenses. Each applicant will forfeit rights to future quarterly payments in the event he or she terminates employment, or ceases to reside, in Huron County. The terms of the scholarship grant will be specified in an application to be acknowledged and submitted to the Foundation by the applicant and/or grant agreement or award letter between the Foundation and the applicant.

Tax Exemption under Section 501(c)(3) of the Internal Revenue Code

To qualify as a program consistent with section 501(c)(3) of the Code, the program must serve a charitable purpose and must not be organized or operated for the benefit of private interests. Economic development activities can be considered charitable where the program has the effect of relieving the poor, distressed or underprivileged, or combatting community deterioration. Economic development activities can also serve the charitable purposes of lessening neighborhood tensions, eliminating prejudice and discrimination, defending human and civil rights or combatting juvenile delinquency. *See* Rev. Rul. 74-587, 1974-2 C.B. 162; IRC 501(c)(3).

Promoting economic development is given special scrutiny by the IRS. Although attracting STEAM graduates to a particular community without more would not qualify as a charitable activity, where the program is targeted at areas suffering from financial distress and the program is operated for the benefit of and in tandem with a local governmental unit, the activities will qualify under section 501(c)(3) of the Code as charitable if they are lessening the burdens of government.

The term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense, and includes lessening the burdens of government. Treas. Reg. § 1.501(c)(3)-1(d)(2). For an activity to lessen the burdens of government, there must be an objective manifestation that the government considers such an activity to be its burden. Rev. Rul. 85-2, 1985-1 C.B. 178. The fact that a government sometimes takes part in an activity will not be enough to meet the test, nor will mere expressions of support from officials. The organization must also actually lessen the burdens of government. *Id.* This is a facts and circumstances test, although a favorable working relationship between the government and the organization can be strong evidence of an actual lessening of a burden.

When it comes to determining whether a particular geographic area is suffering from financial or economic distress, there is no bright line test. In fact, there are various programs designed to benefit distressed areas which use different methodologies for classifying an area as distressed. In our experience, we have demonstrated to the IRS that an area is distressed by comparing U.S. Census Bureau statistics for the geographic location against national or regional average or median figures for key indicators of distress such as unemployment rates, poverty rates, vacant housing, lack of housing and income levels. In general, the more indicators of distress that can be shown for an area, the stronger the support for classifying the area in question as financially distressed.

By way of example, in Priv. Ltr. Rul. 200537038 (June 24, 2005)³, the IRS held that a Section 501(c)(3) organization's participation in a public and privately financed real estate development project, which included leases to market-rate tenants, and investments in small, technology-based companies, furthered exempt purposes by lessening the burdens of government and providing economic development to an underprivileged local area. The organization constructed an innovation and incubator center funded through third party commercial lending and government grants with the intent to attract high technology companies to the state to create not only employment opportunities but also demand for the post-secondary high technology education needed to build a skilled workforce. According to the ruling, the region where the organization operated was plagued by poverty, poor education and low standards of living for more than a century. The IRS held that the organization's activities were consistent with Section 501(c)(3). Since the organization worked closely with the state and its economic development authority, it lessened the burdens of government. The state had considered the development of its economy to be a crucial burden and the legislature had allocated money to the organization to advance the work. Further, through its activities, the IRS noted that the organization was and continued to be organized to improve the economic conditions in the state through the development of high technology industry, which was consistent with its original grant of exemption and Revenue Rulings 74-587 and 76-419, 1976-2 C.B. 146⁴.

Since (i) data indicates that Huron County suffers from economic distress, (ii) the Huron EDC has acknowledged its burden of improving the quality of life and economic conditions of Huron County residents, and (iii) operation of the Talent Retention Scholarship Fund will actually lessen the burdens of government, it is our opinion that the Foundation's program to attract STEAM graduates to Huron County to promote economic revitalization is consistent with Section 501(c)(3) of the Code.

³ Although private letter rulings are not precedential, they are helpful to understanding the position of the IRS.

⁴ This ruling held that a nonprofit organization that purchases blighted land in an economically depressed community, converts the land into an industrial park, and encourages industrial enterprises to locate new facilities in the park in order to provide employment opportunities for low income residents of the area, is operated exclusively for charitable purposes and qualifies for exemption under Section 501(c)(3) of the Code.

Huron County should be considered a Distressed Area

First, the area to be targeted by the Fund, Huron County, should be considered distressed. The State of Michigan as a whole exhibits higher than national average levels of economic distress indicators. According to the 2009-2013 American Community Survey 5-Year Estimates, an ongoing statistical survey that samples small percentages of the population and which is conducted by the U.S. Census Bureau. Michigan faced lower than average levels of median household income and percentage of the population with a bachelor's degree or higher for individuals 25 years of age and older, and higher than average levels of persons living below poverty level, unemployment, and vacant housing units.

Distress Indicator	Michigan	National Average
Median Household Income	\$48,411	\$53,046
Persons living below poverty level	16.80%	15.40%
Unemployment Rate	12.70%	9.70%
Percentage of population with bachelor's degree or higher for individuals 25 years of age and older	25.90%	28.80%
Vacant Housing Units	15.6%	12.5%

Huron County is a rural county which has experienced a 3.2% decrease in population between 2010-2014 according to the Michigan Council of Governments. Based upon data from the 2009-2013 American Community Survey 5-Year Estimates, it exhibited higher levels of economic distress indicators than the United States, (and in most cases, the State of Michigan, as well) as shown in the chart below.

Distress Indicator	Huron County	National Average
Median Household Income	\$40,204	\$53,046
Poverty Level	15.80%	15.40%
Unemployment Rate	10.20%	9.70%
Percentage of population with a bachelor's degree or higher	13.70%	28.80%
Vacant Housing Units	34.2%	12.5%

Another methodology is the ALICE Project which is a study of financial hardship among low-income populations in various states and communities. According to ALICE Project standards, 41% of the total population of Huron County is struggling to afford basic needs. The ALICE Project, which was conducted by the United Way in conjunction with Rutgers University-Newark School of Public Affairs and Administration, suggests in the Alice Project Report⁵ four instruments that measure the size and condition of households struggling financially, introducing the term "ALICE" - Asset Limited, Income Constrained, Employed. The report includes findings on households that earn below the ALICE Threshold, a level based

⁵ United Way ALICE Report – Michigan, Study of Financial Hardship (September 2014)

on the actual cost of basic household necessities in each county in Michigan. It outlines the role of ALICE households in the state economy, the public resources spent on households in crisis, and the implications of struggling households for the wider community. ALICE households are working households which hold jobs and provide services that are vital to the Michigan economy, however, the jobs do not pay enough to afford the basics of housing, child care, food, health care, and transportation.

According to the ALICE Project Report, Michigan has 605,210 households below the Federal Poverty Level (FPL) but also has 930,503 ALICE households which have income above the FPL but below the ALICE Threshold, for a total of 1.54 million households in Michigan struggling to support themselves. The report indicates that 14% of the Huron County population was at or below the FPL, with 27% still struggling below the ALICE Threshold. Only 58% of the population is identified as being above the ALICE threshold.

The ALICE Project Report also identified a number of communities within Huron County that are suffering from economic distress:

	Poverty Rate	Below ALICE Threshold	Unemployment Rate
Bad Axe City	23%	30%	11%
Caseville City	12%	37%	16%
Caseville Township	15%	20%	10%
Harbor Beach	22%	30%	15%
Port Austin	17%	32%	23%

The Talent Retention Scholarship Fund will Lessen the Burdens of Government

Second, to qualify as a charitable activity which lessens the burden of government, the activity must be one which the governmental unit considers to be its burden, and the activity must actually lessen such governmental burden. As the Foundation is carrying on economic development activities which have the goal of repopulating Huron County with job creators, burdens which have been acknowledged by the Huron EDC, the Foundation will be lessening the burdens of government in accordance with Section 501(c)(3) of the Code.

Here, the Huron EDC has acknowledged its obligation and commitment to programs that seek to alleviate and prevent conditions of unemployment, combat the low percentage of residents with college degrees and, thereby, revitalize Huron County. According to section 2 of the Economic Development Corporations Act, MCL § 125.1602, the Michigan legislature authorized the incorporation of local economic development corporations such as the Huron EDC to manage programs to alleviate and prevent conditions of unemployment to strengthen and revitalize the economy of the State of Michigan and its municipalities.

Pursuant to the resolution of the Huron EDC dated June 2, 2015, the Huron EDC recognized its obligation as a local development corporation organized pursuant to Public Act 59 to develop programs aimed at alleviating and preventing conditions of unemployment, and improving the quality of life and economic condition of residents in Huron County and also

authorized partnering with the Foundation to implement the Talent Retention Scholarship Fund to improve the economic base in the distressed county. As described in the Fund Agreement, the scholarship selection committee will include representatives of the Huron EDC so the Huron EDC will have a meaningful voice in operation of the program. Pursuant to minutes of the Huron EDC dated October 7, 2014, the Huron EDC also contributed funds to the Foundation for purposes of implementing the program.

Operation of the Fund by the Foundation will lessen the burdens of the Huron EDC⁶. The Foundation will administer the program to induce STEAM graduates and skilled workers to live and work in Huron County. It will raise funds from the public to support and grow the program beyond what the Huron EDC could do within its own budget. By attracting a talented workforce which includes entrepreneurs, the Foundation will bring jobs and investment to the community, and repopulate the distressed community with individuals who are job creators. This will in turn promote the creation of jobs for the citizens of the county and promote the expansion of existing businesses and industries within the county and new businesses, goals of the Huron EDC.

A study by the United States Department of Agriculture, "Factors Affecting Former Residents Returning to Rural Communities"⁷ acknowledged the critical role return migrants may play in their rural home communities by slowing population loss, generating jobs, and increasing human, social, and financial capital. According to the study, return migrants who return in their late twenties and thirties bring back much-needed human capital in the form of advanced education, job skills, and life experiences. Entrepreneurial activities and self-employment of many return migrants added to the employment base and expanded available services. According to the report, policies aimed at encouraging return migration may help with economic challenges that have increased in the aftermath of the Great Recession. The study states that reducing rural population loss and spurring economic development may depend less on retaining young adults after they graduate from high school and more on attracting them back later in life. According to the study, repopulating rural communities is an explicit aim of the current USDA Strategic Plan for 2010-2015.

Like the economic development program described in Priv. Ltr. Rul. 200537038, the Foundation's goal in operating the Fund is to stimulate the economy of an economically distressed community by attracting new residents and creating employment opportunities to better the region. Consistent with the USDA study referenced above, by recruiting STEAM graduates and entrepreneurs to return to a rural county such as Huron County, the county stands to be revitalized through the talent stream of the new workforce and new jobs and investment that will arise. The Foundation's operation of the Fund which is expected to attract STEAM graduates and skilled workers to Huron County is designed and intended to combat community

⁶ To the extent that the Fund pays student loans that are federally guaranteed student loans, the program may also lessen the burdens of the federal government provided that the federal government has acknowledged the loan repayment to be its burden, and operation of the Fund actually results in fewer loan defaults.

⁷ Cromartie, John, Christiane von Reichert, and Ryan Arthun. *Factors Affecting Former Residents' Returning to Rural Communities*, ERR-185, U.S. Department of Agriculture, Economic Research Service, May 2015.

deterioration and lessen the burdens of government. Accordingly, operation of the Fund as described above should be considered consistent with the Foundation's tax-exempt purposes under Section 501(c)(3) of the Code.

IRC 170(c) provides that donors may deduct contributions or gifts to or for the use of a corporation or foundation created or organized in the United States, organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private purpose and which is not disqualified for tax exemption under section 501(c)(3) by reason of attempting to influence legislation and which does not participate in or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office. Accordingly, absent unusual circumstances, contributions to the Foundation and directed to the Fund should be deductible to the donor. Donors should consult with their own tax advisors regarding the deductibility of contributions.

A number of issues discussed herein, including matters on which we have expressed an opinion, have not been definitively resolved by statute, regulations, rulings or court decisions. While our opinions and views expressed herein are based upon our best and reasonable interpretations of existing sources of law, we cannot guarantee that such interpretations would be followed if they became the subject of judicial or administrative proceedings and we cannot guarantee that the matters will not be challenged. The opinions set forth herein are expressed solely for the benefit of the Foundation and no other party shall be entitled to rely upon such opinions without the express written consent of the undersigned.

Very truly yours,

CLARK HILL PLC



Duane L. Tarnacki

EDC BOARD OF DIRECTORS RESOLUTION

TO: EDC Board of Directors
Dated: June 2, 2015

The Huron County Community Foundation (Foundation) in collaboration with the Huron County Economic Development Corporation (EDC), and other partners focused on increasing our region's prosperity, hereby creates and defines a new scholarship fund.

Whereas, the EDC was created pursuant to the Economic Development Corporations Act (Act 338 of 1974), for the purpose of developing programs to alleviate and prevent conditions of unemployment because the legislature found that it was necessary to assist and retain local industrial and commercial enterprises (MCL 125.1602);

Whereas, it is anticipated that this new scholarship fund will lessen the burden of the EDC by recruiting and then retaining college educated employees for the Huron County workforce, preventing further erosion of the County's economic base.

Whereas, the Huron County Economic Development Corporation seeks to improve the quality of life, and economic condition of residents in Huron County, Michigan, and

Whereas, the county and region has seen a decline in local residents with college degrees which would serve as a basis for improving their economic conditions, and subsequent quality of life improvements, and

Whereas, this has led to a loss of overall population in the county, leading to increasing burdens on local governments to meet the needs of our residents and,

Whereas, that the Huron County EDC seeks to change this trend by seeking to attract young professionals with degrees in science, technology, engineering, arts and math, (STEAM) to work and live in our financially distressed county and communities,

Whereas, in pertinent part, the stated purpose of the Foundation (as set forth in Article II of its Articles of Incorporation) is "[t]o solicit, collect, receive, and administer funds exclusively for such *charitable*, scientific, literary, and educational purposes as permitted for organizations defined in section 501(c)(3) of the Internal Revenue Code for the public welfare of the people of and around Huron County" (Emphasis added);

Whereas, for purposes of the Internal Revenue Code, Treas. Reg. subsection 1.501(c)(3)-1(d)(2) defines the term "charitable" as "[t]he term 'charitable' includes relief of the poor and distressed or of the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; *lessening of the burdens of government*; and promotion of social welfare by organizations designed to accomplish any of the above purposes or to lessen neighborhood tensions; to eliminate prejudice and discrimination; to defend human and civil rights secured by law; or to combat community deterioration and juvenile delinquency." (Emphasis added);

Therefore be it resolved, that the Huron County Economic Development Corporation is entering into a joint effort with the Huron County Community Foundation and the "Reverse Scholarship" program which is designed to improve income levels, decrease unemployment rates, increase household incomes and increase the percentage of residents with college degrees, and

The EDC will do this by facilitating with the recipients of the "Reverse Scholarship" program, who would have a STEAM related degree and have employment and plan to live in the county, the HCCF would agree to repay some or all of their student loans over a 3 year period, provided that the graduate completes the prescribed employment, and

Whereas, Successful applicants who qualify for the benefit of the reverse scholarship fund will be subject to the following terms and conditions as outlined in the fund agreement:

The Huron County Community Foundation will manage and fund the program in accordance with a fund agreement, (attached), signed by the respective parties, with a selected Huron EDC representative serving on the selection committee(s).

☒ Resolution Approved

☐ Resolution Denied

Ayes: Babcock, Drake, Lanfear, Krause, McCormick
and Murphy

Nays: _____

absent: Puntingham, Eisengruber, and Wexler.

HURON COUNTY REVERSE SCHOLARSHIP FUND AGREEMENT

HURON COUNTY COMMUNITY FOUNDATION
SCHOLARSHIP FUND AGREEMENT
HURON COUNTY REVERSE SCHOLARSHIP FUND

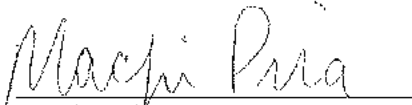
The Huron County Community Foundation (Foundation) in collaboration with the Huron County Economic Development Corporation (EDC), and other partners focused on increasing our region's prosperity, hereby creates and defines a new scholarship fund. This new fund will be subject to the following terms and conditions:

1. The name of the fund shall be the Huron County Reverse Scholarship Fund ("Fund") and will be so identified on the books and records of the Foundation. This fund operates as the Talent Retention Scholarship Fund, as encouraged by Council of Michigan Foundations, for Huron County.
2. The intent of the Fund is to support the efforts of local economic development organizations along with local community organizations and community stakeholders, who desire to recruit and attract more residents with STEAM degrees and/or backgrounds in skilled trades Huron County to live and work in financially distressed communities, in an attempt to combat the low percentage of Huron County residents with college degrees.
 - a. STEAM: Science, Technology, Engineering, Arts, Math
3. This competitive scholarship Fund is to be used for benefit of recent graduates subject to the following terms and conditions;
 - a. "Recent" means applicants must have received an undergraduate or graduate degree at either a four-year college or university, or a two-year community college degree, or received a certificate through a qualified and eligible skilled trades program within the last seven (7) years from the date of application.
 - b. Applicants must have outstanding student debt associated with their degree or certificate education
 - c. Preference will be given to applicants who can demonstrate a previous residency of at least four years within Huron County, or, who can demonstrate that their immediate family currently resides within Huron County.
 - d. Applicants may not be already residing within Huron County at the time of their application.
 - e. Applicants must demonstrate a desire to move to Huron County, find or create employment, and make Huron County their permanent and primary residence.
 - f. Applicants who are selected to receive a scholarship have up to 120 days to demonstrate a written job commitment from an employer somewhere within the county, or be able to demonstrate their own entrepreneurial ability to create their own company and/or be successfully self-employed within Huron County.
4. Applications will be reviewed by a Scholarship Committee ("Committee") comprised of representatives of the Foundation, representatives of the EDC, community stakeholders and the general business community. The Committee shall be elected annually by the Foundation with terms and conditions subject to general Foundation policies and procedures.
5. The Committee will make annual recommendations for awards to the Foundation on disbursements from the Fund. Recommendations of the Committee will be advisory only and the ultimate responsibility for the

determination will remain with the Foundation. The Committee will hold meetings and make recommendations at dates, times and locations as they deem appropriate.

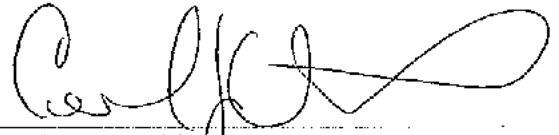
6. All award recommendations from the Committee must be received by the Foundation in writing, accompanied by approved meeting minutes and completed conflict of interest forms for each member of the Committee.
7. Unless changed by a vote of the Foundation, each award will be a minimum of \$10,000 in total and payable over one or more years on a quarterly basis as may be determined from time-to-time by the Foundation. In the event that the individual ceases to be employed or live in Huron County, he or she forfeits the right to any future payments of the award.
8. The Fund may include any property and/or gifts which hereafter may be transferred to the Foundation by donors or any other source for inclusion in the Fund and accepted by the Foundation. Unless specifically otherwise provided in an agreement governing additional contributions to the Fund, any property added to the Fund shall be subject to all of the terms and conditions of this Fund Agreement.
9. The Foundation shall have full legal and equitable title to the property held in the Fund, subject only to the terms of this Fund Agreement, and shall control the income and net appreciation derived from the Fund. The Fund shall not be considered to be a separate trust and the Foundation shall not be considered to hold the Fund as a trustee. No specific individual or organization other than the Foundation shall be considered to have a beneficial interest in any property in the Fund.
10. The Fund's net income (which may include realized and unrealized appreciation), as calculated by the Foundation's Spending Policy which may from time to time be amended, shall be distributed via scholarships as outlined above.
11. The principal of the Fund shall be initially held as non-endowed, pass-through funding, with the ability to become endowed if the opportunity arises.
12. The Foundation may commingle the property held in the Fund with property of other component funds held by the Foundation, provided however, the property held in the Fund will be clearly identified in the books and records of the Foundation and distributions from the Fund will be clearly identified as such to the grantees.
13. It is understood and agreed all assets held in the Fund will be subject to the Articles of Incorporation and Bylaws of the Foundation which may be amended from time to time. The Articles and Bylaws of the Foundation include the Variance Power for the governing Board to modify, without prior approval or subsequent confirmation of any court, any restrictions or conditions on the distribution of funds, including any provisions for distributions to specific organizations, if, in its sole judgment, those restrictions become, either wholly or in part, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Foundation.
14. The Fund will share a fair portion of the total administrative and investment management costs of the Foundation. The administrative cost charged against the Fund will at all times be reasonable, and will be consistent with the Foundation's current fee schedule (which may from time to time be amended) applicable to funds of this type. These fees may be charged against income or principal of the Fund at the discretion of the Foundation.

Signed and approved by



Mackenzie Price
Executive Director

Date: 6-18-15



Carl Osentoski
Huron County EDC- Executive Director

Date: 6-18-15