COUNCIL on FOUNDATIONS

Frequently Asked Questions:

Workforce Development Through Post-Graduation Scholarships Act

What is a post-graduation scholarship?

A post-graduation scholarship is a type of charitable grant that foundations would make to attract individuals with career skills needed in a particular region to the make their homes and build their careers in that community. It would function much like a traditional scholarship, but would pay off a portion of the student loans held by an individual who has already completed a degree or technical program, qualifying him or her to work in a chosen career field that is needed in a community. This bill would not exclude individuals who chose to continue their education by working toward additional or higher certifications or degrees.

How would a program like this work through a foundation?

Much like traditional scholarships, a foundation would establish appropriate eligibility requirements as well as put in place a process to verify that those requirements continue to be met through the duration of the scholarship award agreement. For example, a foundation that is looking to attract nurses to a community facing a shortage of qualified health professionals might require that an individual live and be employed within a particular range of zip codes for a set number of years—with requirements to provide quarterly proof of address/employment. The foundation might also divide the total scholarship into smaller amounts to be awarded quarterly upon verification of compliance with the requirements. As with traditional scholarships, the payments would likely be made directly to the loan provider and not to the individual. In some cases, the scholarship might only cover a fraction of an individual's student loans—leaving the individual responsible for paying any remaining amount.

How would this type of program contribute to economic growth?

The primary goal behind this bill is to combat "brain drain" by allowing charitable foundations to attract talented people to establish their lives and careers in areas where their skills are most needed. A more robust workforce helps to boost the economy and financial well-being of residents in the region. The program would also serve the purpose of helping to address the growing student debt crisis by alleviating at least a portion of an individual's student loans—helping people to achieve greater financial stability.

What if a foundation used a program like this to inappropriately benefit individuals with ties to the organization?

The simple answer is they can't—it's illegal under §501(c)(3) with the threat of harsh penalties that have the potential to put a foundation out of business (§4941-4945; §4958; §4961-4962). The rules and penalties for violating private benefit restrictions differ for community foundations versus private foundations (which include most corporate foundations), but the basic premise is the same: charities must use their resources to further a charitable purpose. Anything that is not in furtherance of a charitable purpose will be subject to harsh penalties, and in some cases, termination of the foundation's tax-exempt status.

What is the cost to government?

We expect it to be very low, if anything at all. Foundation grants made for a charitable purpose are already exempt from income tax for the recipient—whether it's a grant to an individual as a scholarship, or a grant to any other entity for a charitable purpose. We don't expect this to have a high cost because, even if this passes into law, foundations are not going to suddenly have new funds in their grantmaking budget to distribute through this type of program. The decision by a foundation to begin the type of activity that would be made possible under this bill would involve a series of internal and strategic business decisions to reallocate existing grant funds and direct them toward a different charitable purpose: workforce development and economic growth in areas with unmet needs through a post-graduation scholarship program.